

Directorate of  
Intelligence

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# Near East and South Asia Review

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**Near East and  
South Asia Review** [REDACTED] b (3)

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Page

**Articles**

**Implications of a Negotiated End to the Iran-Iraq War** [REDACTED] b (3) 1

An end to the hostilities will force the two belligerents, key Arab states, and Israel to search for new ways to protect their vital interests in a more uncertain environment. Over the medium and long term, we believe the risk of another Arab-Israeli war is increased. [REDACTED] b (3)

**The Arab-Israeli Peace Process: Jordan's Disengagement  
From the West Bank** [REDACTED] b (3) 7

For King Hussein's gambit to pay dividends for the peace process, we believe the PLO would have to respond with a dramatic move that would break down barriers to peace talks. PLO leader Arafat is unlikely to make such a move unless he sees a strong possibility of a change in the US or Israeli position toward PLO participation in negotiations. [REDACTED] b (3)

**Saudi Arabia: Evolution of Iran Policy** [REDACTED] b (3) 11

The Saudis have worked to contain the impact of the Iranian Revolution in the region and to prevent a possible spillover of the Iran-Iraq war. Although Riyadh cautiously welcomes the cease-fire in the Persian Gulf, it remains suspicious of Tehran's intentions. [REDACTED] b (3)

**Egypt's Islamic Revival: A Two-Sided Coin** [REDACTED] b (3) 17

The resurgence of Islam in Egypt is a force both for instability and stability. President Mubarak's policy mix of accommodation and firmness toward the revival has so far achieved modest success and the prospect of Islamic-inspired revolution appears remote. [REDACTED] b (3)

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Lebanon: Hizballah at the Crossroads [REDACTED]

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[REDACTED]  
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Hizballah's growth from a band of violent zealots to a complex movement with aspirations to represent Lebanon's Shias may be diluting its extremism. Changes in the Lebanese political environment appear to be setting the stage for a reassessment of the group's tactics. [REDACTED] b (3)

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Afghanistan: Limits of Kabul's Influence [REDACTED]

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39

Kabul has been pushing political, economic, and propaganda programs in Qandahar designed to expand the regime's base and undermine resistance support in the region. The effort has largely failed, however, and we believe Qandahar is likely to be the first major city to fall once the Soviet withdrawal is complete. [REDACTED]

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Sri Lanka: Muslim Role in Ethnic Politics (b)(3)

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The minority Muslim community in Sri Lanka is becoming increasingly discouraged by President Jayewardene's inability to resolve the communal conflict between his Buddhist Sinhalese majority and the Hindu Tamils. Many moderate Muslims are moving closer to the major opposition party, while younger Muslims are beginning to look to radical solutions. (b)(3)

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Near East and  
South Asia Review [REDACTED] b (3)

Articles

Implications of a Negotiated  
End to the Iran-Iraq War [REDACTED] b (3)

We believe an end to hostilities between Iran and Iraq will force the two belligerents, key Arab states, and Israel to search for new ways to protect their vital political and security interests in a more uncertain and fluid environment. Baghdad and Tehran will be likely for some time to focus their energies on securing economic and military aid, mainly from the West, expanding political influence in the Gulf, and preserving cold peace with each other. Gulf Arab states will try to balance their relations between Iraq and Iran, giving reconstruction aid to both. Israel and Syria will see a serious military threat from Iraq's powerful armed forces and will face expanded Iraqi and possibly Iranian involvement in the Arab-Israeli arena. The impact of peace between Iran and Iraq on the Arab-Israeli conflict may be the biggest question mark [REDACTED] b (1) b (3) An end to the Gulf conflict, in our view, increases the risk of another Arab-Israeli war over the medium and long term [REDACTED]

**Iraq and Iran: Capitalizing on Peace** b (3)

Even if a comprehensive peace agreement is reached, Iraq and Iran almost certainly expect to be locked in a cold war for the foreseeable future. We believe Baghdad and Tehran will work to prevent the outbreak of hostilities for several years, but both—and most of their neighbors—probably will assume another war will break out before the turn of the century because of deeply rooted Arab-Persian differences, strong competition for political dominance in the Gulf, and the ideological clash between Islamic fundamentalism in Iran and secularism in Iraq. Neither state, in our view, will be satisfied with the outcome of the eight-year war [REDACTED]

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*Iraq.* Iraq clearly sees itself as victorious in the war and is likely to tout itself as the dominant military and political power in the region. Indeed, we believe Iraq will use victory as a springboard to gain hegemony in the Gulf, and President Saddam Husayn will expect the Gulf Arabs to line up behind Baghdad's political lead. Iraq does not see itself indebted to the Gulf Arab states for their material and financial support in the war. On the contrary, Baghdad considers the Gulf Arabs indebted to Iraq for preventing the export of the Iranian revolution to their soil. Iraq has no intention of repaying the more than \$35 billion in aid it received from the Gulf Arabs. [REDACTED] b (3)

Iraq will seek regular demonstrations of continued Gulf Arab support. As a start, it probably will ask for a war reconstruction fund underwritten by the Gulf states and will argue against Kuwaiti and Saudi efforts to cut back on oil sold on Iraq's behalf from the Neutral Zone. Baghdad will work against an improvement in Gulf Arab relations with Iran and will try to influence the pace and scope of Iran's political rehabilitation. Baghdad's measures may include:

- Pushing for formal security and military agreements with—perhaps even full membership in—the Gulf Cooperation Council to give Iraq influence over Gulf Arab defense and economic planning.
- Strengthening leftist antiregime groups in the Gulf as a warning to Gulf Arab leaders to heed Baghdad's directives. Iraq will try to make sure, however, that these efforts to weaken the Gulf states do not benefit pro-Iranian dissidents.

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- An effort to acquire Kuwait's Bubiyan and Warbah Islands, strategically located at the mouth of the Shatt al-Arab, and other disputed territory along the Kuwaiti-Iraqi border, as part of a postwar muscle-flexing strategy. Such efforts are likely to succeed only if Iraq uses military force. (S) b (3)

Further afield, Iraq almost certainly will move to settle scores with Syria, which has steadfastly supported Iran in the war. Once peace is secured on Iraq's eastern front, we believe Baghdad will undertake a major effort to destabilize the Assad regime. Iraq may even try to sabotage some strategic Syrian facilities or provoke military tensions along the Syrian-Iraqi border, with an eye to putting new pressures on Syria's already strained economy. The Iraqis probably are confident that the Syrians would avoid any response that might lead to a major conflict. (S) b (3)

Baghdad probably will try to challenge Syrian interests in the Levant by giving financial and logistic support to Palestine Liberation Organization leader Arafat and his Fatah group and to foes of Damascus such as the Christian Lebanese Forces militia in Lebanon. Iraq will also try to reduce Syria's role as the dominant Arab confrontation state with Israel. (S) b (3)

Baghdad may even adopt a moderate stance, initially, on terms for Arab-Israeli negotiations and peace in an effort to engineer an anti-Syrian diplomatic bloc made up of Iraq, Egypt, Jordan, and the PLO. Over time, however, we believe Iraq's position on Arab-Israeli questions will become more hard line. We also expect relations between Egypt and Iraq to sour eventually, as they jockey for political predominance in the Arab world. (S) b (3)

Meanwhile, Baghdad is likely to strike at the rebellious Kurds with a vengeance after the war. The Kurdish rebellion is likely to collapse and go back to a nuisance status within weeks of a cease-fire, as it did after Iran withdrew its support for the Kurds in 1975 as part of a deal with Saddam. (S) b (3)

Iraq's postwar strategy probably will put heavy emphasis on economic reconstruction and expanding commercial and political ties to the West, including

the United States. We believe Baghdad will see good relations with Washington as a balance to its close ties to Moscow and a way to keep the United States from drifting too closely toward Iran. Iraqi leaders probably also hope that good ties to the United States will prompt US business investment in Iraq after the war, particularly in the oil exploration and development fields. (S) b (3)

*Iran.* Iran's postwar strategy is certain to be heavily influenced by internal political developments. If Assembly Speaker Rafsanjani maintains his preeminence, Tehran is likely to seek political accommodation with Gulf Arab states to pull them away from Iraq's political coattails. Gaining reconstruction aid and reestablishing trade and commercial links with Gulf states will be top priorities for Iran. (S) b (3)

Still, Iran probably will provide clandestine training and support to dissident Gulf Arab groups and to encourage Shia activists throughout the Gulf to engage in antiregime activities. The overthrow of Sunni monarchies in the Gulf will remain a long-term political objective of the Iranians. In the event Rafsanjani were pushed aside and more radical elements assumed power, Tehran probably would focus more heavily on spreading its revolution by sponsoring sabotage and other subversive operations against Gulf Arab states. (S) b (3)

Iran is unlikely to cut back its heavy involvement in Lebanon and may provide more funds to Hizballah to increase its political and military options. Although Tehran may be less sensitive to Syrian objections to this support after the war with Iraq is over, Iran will still need good relations with Damascus to ensure the flow of arms, materiel, and personnel to Lebanon. (S) b (3)

An end to the war will not, by itself, assure the release of the Western hostages in Lebanon over whom Iran exerts some control. Their release depends primarily on Tehran's interest in improving its relations with Washington and other Western capitals, and on Hizballah's willingness to give up the hostage card. (S) b (3)

There may be some increase in Iranian meddling in Afghanistan, but it will mainly emphasize materiel support to Shia insurgent groups. Tehran could send some Revolutionary Guards to Afghanistan to provide a battlefield for its more zealous members and, at the same time, move potential troublemakers out of Iran, but this is much less likely. (S) b (3)

Iranian interest in improving relations with the United States after the war will depend largely on internal political developments, and the coming to power of radical elements could lead to a more hostile Iranian policy toward the United States. Nonetheless, an end to the war will remove a major obstacle to improved relations, and we believe some Iranian leaders may see less hostility toward Washington in Iran's political and economic interests. Tehran probably will calculate that its willingness to improve relations with Washington would help slow further improvement in US-Iraqi relations, which they almost certainly want to prevent. (S) b (3)

Some improvement in Iranian-Soviet relations is likely after the war, but longstanding Iranian suspicion about Moscow's intentions in southwest Asia as well as deeply rooted anti-Communist sentiment among the Iranian people weigh against a sharp upturn. Tehran might offer Moscow some economic opportunities in Iran's reconstruction program to gain Soviet interest. In the event the West proved unwilling to provide Iran with economic and military assistance, Tehran probably would try to attract an expanded Soviet role. (S) b (3)

**The Gulf States: Seeking a Regional Balance of Power**  
Gulf Arab states have made tremendous strides over the past eight years in bolstering their militaries and cooperating on security issues. They are likely to continue to pursue, even accelerate, these strategies after the war's end. (S) b (3)

We believe all Gulf Arab leaders are deeply suspicious of the long-term regional aims of both Iraq and Iran and see balanced relations between the two in their best interests. The Gulf states probably are willing to contribute several billion dollars to a postwar reconstruction fund for both Iran and Iraq, although the amount probably will fall far short of Tehran's and Baghdad's expectations. Major Gulf

Arab financial commitments to a reconstruction fund would greatly reduce their willingness and ability to provide aid to other Arab states. Still, the Gulf states will provide some financial assistance to other Arab capitals to maintain good relations. (S) b (3)

Saudi Arabia, which will continue to be the leader of Gulf Arab interests after hostilities end, will almost certainly attempt to chart a path of political balance between Iraq and Iran. (S) b (1) b (3)

In a less threatening postwar environment, Gulf Arab states probably will seek less overt ties to Washington to appease Tehran and prevent the development of domestic and regional criticism that they consort too closely with Israel's main benefactor. Nonetheless, the Gulf Arabs will seek to maintain fundamental security links to the United States after the war, both as insurance in the event of renewed fighting and as a reminder to Iran and Iraq that Washington has a strong stake in Gulf political stability. (S) b (1) b (3)

#### **The Oil Issue: Downward Pressure on Prices**

An end to the war almost certainly will put downward pressure on oil prices. Psychological factors, particularly market expectations that both Iraq and Iran will increase production to assist in reconstruction, will play a key role in price movements. The stability of the market will depend on how OPEC accommodates the demand by both countries to increase exports. (S) b (3)

Of the two belligerents, Iraq is more likely to increase its oil production substantially. We believe Baghdad will try to boost its production as much as possible without disrupting the oil market. It could easily miscalculate, however, leading to increased production by other OPEC members and more pressure on prices. Oil prices, in such a scenario, could fall to less than \$10 per barrel. (S) b (3)



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The greater deterioration of Iran's oil sector during the war limits its ability to increase production dramatically for some time. Tehran, traditionally a price hawk in OPEC, probably will push for OPEC production restraints to rein in Iraq and shore up prices. Moreover, the promise of a multibillion dollar reconstruction fund will encourage oil policy moderation by Iran so as not to antagonize Gulf benefactors. [REDACTED] b (3)

#### The Arab-Israeli Arena: Israel and Syria See Problems

Israel and Syria almost certainly are alarmed about the potential consequences of an end to the Iran-Iraq war. In addition to Iraq's large, well-equipped, and battle-hardened standing army, its long-range ballistic missile and fighter bomber capabilities are viewed by both Tel Aviv and Damascus as security threats. Even a temporary modus vivendi between Iran and Iraq that freed up some Iraqi military assets, in our view, would be disconcerting to the Israelis and the Syrians. There almost certainly will be less Israeli and Syrian consternation about Iran's postwar agenda, although Tehran's troublemaking capabilities in Lebanon and, to a lesser extent, among Palestinians will be of concern. [REDACTED]

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[REDACTED] b (1) b (3)

*Syria.* Despite the Iraqi menace, the Syrians are unlikely to try to mend fences with Baghdad in the near term—neither contrition nor a sharp reversal in policy is in keeping with President Assad's personal style. To counter any Baghdad-mounted subversive effort, Damascus will crack down harder on its

already weak internal foes and increase support to dissident Iraqi groups—encouraging them to mount a subversive campaign against Saddam Husayn's regime. Assad would prefer a war of subversion and terrorism to a military confrontation. (b) (3)

Aside from a visceral disdain for Saddam, Assad will still see political and economic benefit in maintaining close relations with Iran. In particular, Damascus will see good relations with Iran as insurance against a showdown in Lebanon between Syria and Hizballah, which would undermine Syrian efforts to engineer Lebanon's political reconstruction. The Syrians probably also believe that an improvement in Iran's post-war economy will lead to a gradual increase in economic assistance from Tehran. Despite its economic hardships during the war, Iran provided Syria with gratis and concessionary oil shipments to keep Damascus in Iran's camp. (b) (3)

#### Implications for US Interests

An end to the war will have several positive near-term benefits for US interests in the Middle East. In addition to reducing the risk to US naval forces and commercial shipping in the Persian Gulf, it will:

• Ensure the free flow of oil from the Persian Gulf to the West.

- Reduce military threats to Gulf Arab states.
- Remove a major obstacle to improvement in US-Iranian relations.
- Reduce the threat, at least temporarily, of the export from Iran of a militant brand of Islamic fundamentalism that has a strong anti-US focus.

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But an end to the war will also accelerate a number of regional developments and trends that may pose risks to US interests over the medium and long term. In addition to the uncertainty over how an end to the war will affect Iran's internal politics and foreign policy, some major trouble spots that we see on the horizon include:

- Iraq's likely pursuit of political and military hegemony in the Persian Gulf and beyond. Gulf Arab states may eventually look to the United States for protection from Baghdad.

- Friction between Iraq and Syria, which could develop into a major political and military slugfest between two Arab heavyweights.

- Expanded Iraqi involvement in Arab-Israeli issues, which probably will complicate Arab efforts to forge a united position on terms for peace talks as Syria, Egypt, and Iraq pursue different agendas and objectives.

- Attempts by Iran to increase its influence with Afghan, Lebanese, and Palestinian groups as a way to keep alive its long-term aim of spreading its Islamic revolution to other states in the region.

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**The Arab-Israeli Peace Process:  
Jordan's Disengagement From  
the West Bank** (b) (3)

Jordan's disengagement from Palestinian affairs has given the Arab-Israeli peace process its most serious jolt in many years. King Hussein wants to put aside, at least temporarily, the "Jordanian option" albatross and secure his political base in the East Bank. One factor in the timing of the announcement probably was a desire to give the next US administration time to develop a new game plan for getting peace talks under way. For Hussein's gambit to pay dividends for the peace process, we believe the Palestine Liberation Organization (PLO) must respond with its own dramatic move—for example, acknowledging it needs Jordan as a negotiating partner, accepting UN Resolutions 242 and 338, or even recognizing Israel's right to exist—that will break down immediate barriers to peace talks. Caution is PLO Chairman Arafat's hallmark, however, and he is unlikely to adopt a bold course unless he detects the strong possibility of a change in either the US or the Israeli position toward PLO participation in negotiations.

The nine-month-old Palestinian uprising, King Hussein's recent decision to disengage, and coming elections in Israel and the United States have made Arab hardliners even less willing to make concessions on peace process issues, and most players see the US peace initiative as having run aground.

Israeli and Arab players, particularly the PLO, need time to sort out the impact of Jordan's withdrawal from Palestinian affairs and find ways to keep the security situation in the occupied territories from deteriorating in the coming months.

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**Strategies and Concerns of Key Players**

*Jordan.* King Hussein has adopted an "East Bank first" policy. He wants to protect his political base at home and prevent the Palestinian uprising from spilling over to Jordanian territory.

The disengagement, in our view, is a tactical move designed, in part, to force the PLO to take its own initiatives for inclusion in peace talks. The King has clearly signaled that it is the PLO's responsibility to protect Palestinian interests in the territories during the uprising and that Amman is not to blame for unfulfilled Palestinian political and economic expectations.

The King is not opting out of the peace process. He almost certainly believes Arafat will fail to consolidate his influence in the West Bank and Gaza Strip, forcing the PLO to turn back eventually toward Jordan for cooperation. He believes he has dumped the onus for progress toward negotiations squarely in the laps of the PLO, Israel, and the United States.

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Despite his pullback from the West Bank, we believe Hussein's basic peace process goals remain unchanged:

- An international conference, leading to direct negotiations between Israel and Arab parties.
- A peace settlement that satisfies minimum Palestinian demands for self-determination but prevents the emergence of a militant, irredentist Palestinian state.

We believe Hussein is now willing to entertain any formula for Palestinian representation in negotiations that would preclude the participation of radical elements hostile to Jordan. He almost certainly is confident that Israeli objections would work to this end.

*The PLO.* The PLO undoubtedly is more concerned now with how it is going to take up the Jordanian gauntlet in the territories than with broader peace process questions. Arafat's first priority is to acquire funds to replace the terminated Jordanian expenditures and gain broad Palestinian support. Framing a political response to Hussein's action at the scheduled meeting of the Palestine National Council will be another major challenge.

Arafat's propensity to avoid risky moves that might threaten his leadership weighs against a dramatic initiative at the meeting. But he may decide to set up a government-in-exile—despite the certain instability of such a regime and the likelihood of even greater PLO infighting—as a way to legitimize his own standing in the West Bank, enhance the PLO's international credibility, and strengthen the PLO's case for inclusion in peace talks.

Although Jordan's disengagement has eclipsed debate within the PLO over the conciliatory statement on Palestinian relations with Israel drafted by Arafat lieutenant Abu Sharif, the PLO leader's apparent

approval for the statement to be distributed at the Arab summit meeting in June demonstrates Arafat's willingness to flirt with more moderate approaches to peace process issues. His failure to endorse Abu Sharif's conciliatory line publicly, however, strongly suggests that he is still unwilling to recognize Israel or accept UN Resolutions 242 and 338—steps that would remove major obstacles to peace talks. In our view, Arafat will avoid such moves as long as he detects no change in either the US or Israeli position on PLO participation in negotiations. The risk of Syrian and radical Palestinian retaliation against Arafat would be too great for concessions that might not get the PLO to the negotiating table.

With Syrian-supported PLO dissidents putting military pressure on Arafat loyalists in Lebanon, Jordan stepping back from the occupied territories, and the PLO facing its biggest challenge in years, Arafat probably plans to launch yet another diplomatic offensive designed to gain political support—and money—from other Arab states. Cairo, however, probably will continue to argue forcefully with Arafat that he needs either to accept UN Resolutions 242 and 338 or show flexibility on Palestinian representation.

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Foreign Minister Peres's Labor Party has been dealt a severe blow by Hussein's disengagement, as it undermines the "Jordanian option" that has served as the foundation stone of Labor's peace process platform. Unless the PLO and Jordan reconcile their differences or the King dramatically reasserts his responsibility for the West Bank, Labor probably will have to go back to the drawing board next year and try to patch together a new strategy.

*Syria.* Syrian President Assad almost certainly sees Hussein's new tack as favorable to Syria's position, as it weighs heavily against separate peace talks between Israel and Jordan. Moreover, the success of Syrian-supported PLO dissidents in pushing Arafat's forces out of Beirut earlier this year has encouraged Syria to continue its strategy of trying to gain control of the PLO by weakening Arafat's base of operations. Damascus probably also will encourage its Palestinian surrogates to step up their activities in the West Bank and Gaza to try to counter the influence of Arafat's Fatah group.

A major feature of Assad's peace process strategy is his insistence that Arabs be represented by a unified delegation at an international peace conference. As long as the PLO is not subservient to Syria, Assad is likely to continue to insist on such a delegation as a way to preserve some Syrian influence over a resolution of the Palestinian problem.

B1 We believe Syria retains the ability to undermine negotiating processes that do not fully take into account Syrian

interests or attempt to circumvent Damascus. Syria probably will also try to work more closely with Jordan on Arab-Israeli issues to fuel Arafat's suspicions of Jordanian-Syrian collusion in an anti-PLO campaign.

#### The Soviet Reaction

Moscow has not, as yet, taken a stand on King Hussein's decision to renounce Jordan's responsibilities for the West Bank.

Nonetheless, Moscow probably is concerned that the PLO may eventually be discredited, as it fails to live up to the political and economic expectations of Palestinians living in the West Bank and Gaza Strip.

In any event, we believe the Soviets will remain committed to their minimum demand that peace negotiations take place under the framework of an international conference. In the waning days of the current US Administration, the Soviets are unlikely to deviate from longstanding positions and probably will wait to see how Hussein's gambit plays out before making any adjustments to their peace process strategy.

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Saudi Arabia: Evolution of  
Iran Policy [REDACTED] b (3)

After initially minimizing the potential threat of the Iranian Revolution, the Saudis carefully worked to contain its impact in the region and, later, to prevent a possible spillover of the Iran-Iraq war. They gained near regional unanimity on policy toward the war, provided financial and logistic support to Baghdad's war efforts, and helped to convince the West to expand its naval presence in the Persian Gulf to protect neutral shipping. [REDACTED]

Moreover, Saudi Arabia largely avoided military clashes with Iran, primarily by limiting its naval presence in the Gulf, shunning confrontational situations, and imposing restrictive rules of engagement on the Saudi Air Force and Navy. Although the Saudis cautiously welcome the ceasefire in the Gulf, they remain suspicious of Iranian intentions and will move slowly to reestablish ties. [REDACTED]

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Initial Saudi Reaction to the Iranian Revolution

The rapid series of events that toppled the Shah took the Saudis by surprise. In late 1978 Riyadh unsuccessfully gambled that the Shah could withstand spreading unrest and, to boost his stature among the Iranians, publicly stressed Saudi support for his regime. [REDACTED] just before the Shah fled Iran in early January 1979, then Crown Prince Fahd openly portrayed the Shah as a defender of Islam. Riyadh's initial concerns about the relatively unknown Ayatollah Khomeini were eased by the appointment of the provisional government under moderate Prime Minister Bazargan in February 1979. [REDACTED]

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Despite the seizure of the US Embassy in Tehran and the fall of the Bazargan regime in November 1979, the Saudis remained optimistic that the Iranian Revolution would eventually evolve in a more moderate direction. [REDACTED]

[REDACTED]

Moreover, Riyadh calculated that Iran under

Khomeini would help to stem the spread of Communism in the Middle East and that, in any event, Khomeini was the only viable alternative to a power grab by the pro-Soviet Tudeh Party. [REDACTED]

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The Saudis also miscalculated the intensity and impact of Iran's revolutionary zeal, thinking that Khomeini's fierce rhetoric was largely for internal consumption. From 1979 to 1981, Riyadh generally tried to ignore Khomeini's barbs and Tehran's public calls for Saudi Shias in the Eastern Province to revolt. In early 1980 Crown Prince Fahd publicly stated that there were "no problems" with Iran, and in February of the same year the Saudis sent a token level of relief aid to victims of flooding in Iran's Khuzestan Province. [REDACTED] on both occasions the Saudis had hoped to signal their desire for an improvement in relations, but the Iranians did not respond in kind. [REDACTED]

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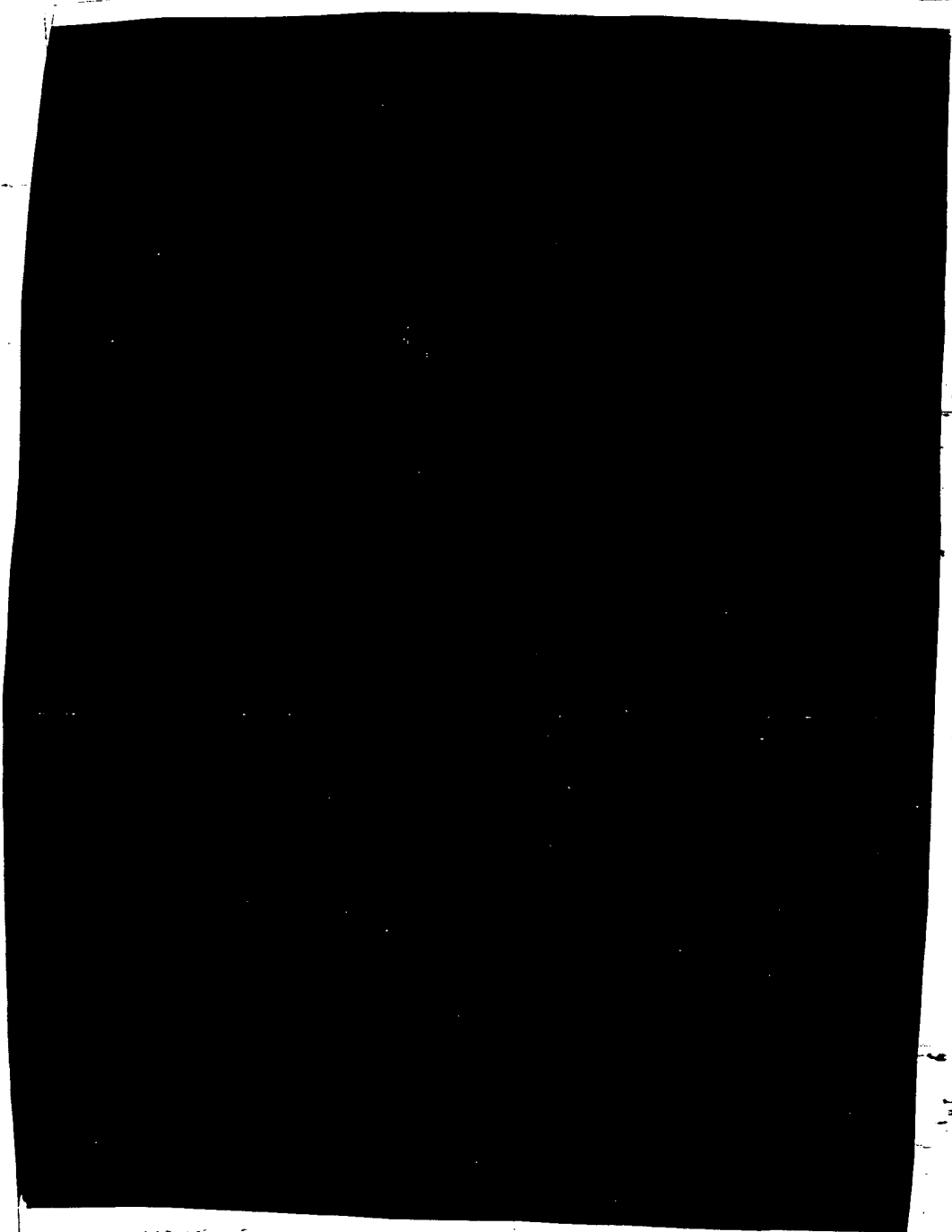
1980-81: The War Begins

Riyadh initially took a low-key, noncommittal stance toward the Iran-Iraq war. [REDACTED] they feared a clear-cut victory by either side would make the winner the predominant power in the Gulf. [REDACTED]

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Nevertheless, the war did lead to a rapid shift in the Saudi position regarding regional security. Riyadh, which had eschewed the Shah's proposals for a collective security pact, became the main proponent of the formation of the six-nation Gulf Cooperation

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b (3) Council in May 1981. [REDACTED]  
the Saudis viewed the grouping as a mechanism to facilitate greater cooperation on internal security and a more unified foreign policy in the face of Iranian aggression. [REDACTED]

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#### 1982: Apprehension Sets In

An unsuccessful coup attempt in Bahrain in December 1981 by pro-Iranian Shias ended Riyadh's general complacency about Iranian intentions toward the Gulf states. The Saudis strongly suspected that Tehran was responsible for the plot and [REDACTED]

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[REDACTED] The Saudis also began to increase economic aid to some less wealthy Gulf states to stave off possible Iranian inroads and bolster friendly governments. [REDACTED]

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The Saudis were deeply troubled when Iranian troops crossed into Iraqi territory for the first time in July 1982. [REDACTED]

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The Saudis decided to step up support for Iraq—a "brother" Arab country and a strong buffer between the Arabian Peninsula and Iran. [REDACTED]

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#### 1984: The War Expands

The Saudi response to attacks by Iran on neutral Gulf shipping—which began in March 1984 in retaliation for Iraqi attacks on Iranian tankers—was to seek diplomatic condemnation of Tehran. In part due to Saudi lobbying, the Arab League in May issued an appeal to Iran to cease its attacks against "Arab interests" in the Gulf. The following month a [REDACTED]

The Saudis viewed Bahrain, with a large Shia population, as the country most vulnerable to Iranian meddling. As a result, economic and military aid to Bahrain jumped [REDACTED]

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ministerial level meeting of the Gulf Cooperation Council issued a communique condemning Iran's activities. Although neither statement altered Iran's policies, they did provide Riyadh with a measure of political support. [REDACTED]

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The prospects of an Iranian-Saudi conflict rose substantially in June 1984 after Saudi F-15 fighters shot down an Iranian F-4 in Saudi airspace. Riyadh, however, sought to limit the impact of the incident and did not even publicly praise the vigilance of the Saudi Air Force. [REDACTED]

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1985-1987: Riyadh Begins To Reassess Its Strategy  
By 1985 the Saudis were under no illusion that the Gulf Cooperation Council or third-party efforts to reduce tensions would succeed. [REDACTED]

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In May 1985 Foreign Minister Saud visited Tehran—the first high-ranking Saudi official to visit since Khomeini came to power—but little progress was made in improving relations. [REDACTED]

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By early 1986—following Iraq's loss of the Al-Faw peninsula—the Saudis had become convinced that a continuation of the war would directly threaten their national interest. [REDACTED]

[REDACTED] Riyadh concluded the war was continuing. [REDACTED]

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to weaken Iraq militarily and economically, and eventually Baghdad would not be a viable buffer between Iran and the Arab Gulf states. [REDACTED]

Apparently as a result of this reassessment, the Saudis began to more directly aid the Iraqi war effort. In November 1986 Iraqi aircraft that had attacked Iranian oil facilities at Larak Island refueled at Dhahran Air Base on their return flight. [REDACTED]

(1) b (3) [REDACTED] before the use of the airfield by the Iraqis the Saudis had approved a request from them for contingency assistance. Riyadh increased economic aid to Baghdad as well. [REDACTED] (3)

The Saudis also supported a more active US military commitment in the region. They enthusiastically welcomed the arrival of US warships in the northern Persian Gulf in February 1987. Some Saudi officials initially were concerned that the reflagging of Kuwaiti tankers in July 1987 would expand the war. [REDACTED]

**July 1987-Present: Growing Saudi Resolve**

We believe the Iranian-sponsored violence that occurred during the Hajj—the annual Muslim pilgrimage to Mecca—in July 1987 dashed any remaining Saudi hopes of reaching an accommodation with Tehran. More than 400 people—including 275 Iranians—died during rioting in Mecca. In an unusual display of boldness, Riyadh publicly charged that Iran masterminded the violence to embarrass the Saudi Government. The Saudis also denounced the Iranians for abusing Saudi hospitality and violating Islamic standards by staging political demonstrations during the pilgrimage. For its part, Iran claimed that Riyadh massacred hundreds of pilgrims. The Saudis' anger increased further after the sacking of their Embassy in Tehran by Revolutionary Guards on 1 August, which resulted in the death of a Saudi diplomat. [REDACTED] (3)

[REDACTED] b (1) b (3)  
A tougher stand toward Tehran gradually took shape. Fahd, [REDACTED]

[REDACTED] b1 b3  
[REDACTED] successfully moved to limit the presence of Iranians at this year's Hajj. In March, the Organization of the Islamic Conference approved a Saudi-suggested resolution that asserted Riyadh's right to take the necessary measures to prevent a repetition of the 1987 violence. The organization also endorsed the establishment of a quota of pilgrims from each country; the Saudis argued that a limitation on the number of people was necessary because construction in Mecca limited the available housing. A quota of 45,000 Iranian pilgrims was subsequently announced by the Organization, but Tehran eventually boycotted the Hajj, claiming Iranian pilgrims were being prohibited from attending. [REDACTED] (3)

Exasperated by Iran's behavior, the Saudis severed diplomatic relations on 26 April. The Saudis said their decision was based on Iran's role in the 1987 Mecca riots, the sacking of their embassy in Tehran, and Iranian obstruction of freedom of navigation in the Gulf. [REDACTED]

b (1) b (3)

(1) b (3)

b (1) b (3)

Between April and August, when Tehran and Baghdad agreed to a cease-fire, the Saudis engaged in an unprecedented war of words against Iran. A Saudi newspaper called the hijackers of a Kuwaiti plane in April "Khomeini's henchmen." The same month the Saudis publicly defended the sinking or damaging of six Iranian naval vessels by the US Navy, saying the Iranians were themselves responsible. In a public address in May, King Fahd remarked that he hoped "men of peace" would replace Iran's present rulers. Riyadh almost certainly calculated that, following the severing of ties and Iran's succession of military defeats, its hardline posturing was a low-cost tactic.

b (3)

#### Prospects

We believe the Saudis are convinced that their recent tough stance toward Iran helped to further isolate Tehran and pressure the Iranians to end the Gulf war. Only Iran, for example, opposed the restrictions on the size of Hajj contingents and no country joined Iran's boycott of the pilgrimage. In our view, the Saudi resolve to stand up to Tehran helped to undercut Iranian plans to foment violence through its surrogates at this year's Hajj, which took place peacefully last month.

b (3)

Riyadh has publicly welcomed Iran's acceptance of UN Security Council Resolution 598.

b (1) b (3)

Even if a cease-fire is successful, the Saudis will continue to regard Iran as a threat to regional security.

b (1) b (3)

Over the near term, several factors are likely to influence the pace and extent of any possible rapprochement. A pledge by Tehran not to disrupt next year's Hajj or to abide by its quota would be a strong signal to Riyadh of Tehran's desire for better ties and even the reestablishment of relations.

SECRET

Ultimately, however, we believe the state of Saudi-Iraqi relations will be the pivotal factor in Riyadh's Iran policy. If Baghdad returns to its prewar hostility toward the Saudis, Riyadh may calculate that an improvement of relations with Tehran is necessary to establish a rough equilibrium of power in the region.

[REDACTED] b(3)

[REDACTED] b(3)

## Egypt's Islamic Revival: A Two-Sided Coin [REDACTED] b (3)

Islam influences Egypt's politics in opposite directions. On the one hand, the Islamic resurgence in its militant form breeds political instability. It threatens leaders' lives, undermines government legitimacy, focuses dissent, and provides channels for external subversion. On the other hand, Islam has a demonstrated capacity to promote stability. Egyptian Islam acts as unifier, counselor of patience, and safety valve for discontent. [REDACTED] b (3)

President Hosni Mubarak's policy mix of accommodation and firmness toward the revival has thus far achieved modest success. Quality Islamic social services are a beneficial supplement to government efforts, and the limited inclusion of Islamic activists in the political process has helped isolate the radical militants. While Islamic revival is indeed changing the face of Egypt, the prospect of a violent, Islamic-inspired revolution now appears remote. [REDACTED] b (3)

### Introducing Egypt's Islamic Players

Egypt's Islamic resurgence is far from monolithic. The fundamentalist quest for pure faith and practice is only one of many Islamic trends impacting on private and public affairs. Other active trends include Sufi mystical orders and the government's energetic Islamic institutions. [REDACTED] b (3)

Fundamentalists themselves may agree on the goal of an Islamic order, but they differ on tactics and strategy. The Muslim Brotherhood, Egypt's oldest and largest fundamentalist society, now advocates patient development of an Islamic society that in turn will gradually press for Islamic government. By contrast, militant groups generally advocate the forceful installation of Islamic government, which can then impose a pure Islamic order. [REDACTED] b (1) b (3)

### Destabilizing Aspects

Egypt's Islamic resurgence is most obviously destabilizing in that it has nurtured groups that

threaten violence [REDACTED]

[REDACTED] Al-Jihad (Holy War) is among the extremist groups that command good Muslims to strike at the government. A military cell of the group killed President Sadat in 1981. Similarly inspired assassination attempts in 1987 were directed against two former Interior Ministers and a prominent editor known for sharply criticizing extremism. [REDACTED] b (3)

[REDACTED] Fundamentalists took advantage of the February 1986 police riots by directing violence against nightclubs and bars. [REDACTED] b (1) b (3)

More broadly, the Islamic resurgence is destabilizing in that Islam's tenets provide a measuring stick by which to question the legitimacy of the Egyptian Government:

- Islam promises prosperity to the faithful individual and community. Poverty among the devout and the breakdown of family systems can thus be blamed on an un-Islamic system.
- Discrepancies between code-rooted civil law and Islamic law conflict with the belief that government's ultimate purpose is to promote Allah's plan of justice.
- Islam presses against perceived social evils such as alcohol, dancing, public affection, and non-Islamic dress.
- Foreign policies are viewed in the light of their effect on global Islam. Egypt's relations with Israel are thus in tension with the fate of Palestinian Muslims. [REDACTED] b (3)

The Islamic resurgence can also challenge political stability by serving as a rallying point for dissent originating in a variety of sources. Striking responsive chords throughout Egyptian society, Islam has become a primary ideological challenge to the Mubarak regime.

[REDACTED]

Amidst the resurgence, Islamic institutions that provide quality social services the government cannot or will not provide are creating a parallel order that we believe weakens public confidence in, and reliance on, the state. Such effective "propaganda by deed" worries many observers who fear a "revolution by stealth." These critics fear the Egyptian Government may tailor policies to appease Islamic pressure to the point of capitulation.

A further shift toward a more orthodox Islamic society may destabilize matters by alarming the Coptic Christian community. Urban sectarian violence is a demonstrated threat.

Finally, Islamic institutions can be disruptive by providing channels of support for nations and groups seeking to alter or weaken the Egyptian state. The Muslim Brotherhood maintains extensive contacts throughout the Arab world, and oil money from Persian Gulf states provides significant support for Islamic ventures in Egypt.

[REDACTED]

#### The Positive Side

Islam's service as a moderating force in Egypt stems in part from its positive attitude toward government. The Koran's counsel to "obey those in authority over you" is central to a tradition of labeling disobedience as sinful.

While legitimate authority is supposed to serve Allah, Egyptian Islam has long given the benefit of the doubt to the ruler, given the perceived alternative of anarchy. Islamic militancy thus ironically legitimizes existing structures by making the state appear as the dike against a great upheaval.

Egypt's pervasive, state-controlled religious institutions remain a reliable support for the system. Official Islam has been mobilized to compete against the radicals for the moral high ground.

The quality of state-directed preaching has improved, and televised debates with radicals exhibit sharpened intellectual muscles on the part of the Islamic establishment. Al-Azhar, the establishment's key symbol and center of Islamic learning, stands out for its continued counsel of patience. As the Muslim world's foremost religious university, Al-Azhar is also gaining favor abroad as a bulwark against Iran's ideological challenge.

We believe Egypt's growing Sufi orders are another force for stability. A mystical Islamic tradition well rooted in Egypt, Sufi withdrawal from outward deceptions fosters toleration for the earthly status quo. Yet Sufi quietism can emerge in pious action. This duality is apparent in Sufi determination to oppose and undercut violent fanatics with worldly good works. Sufis quietly operate much of the Islamic service explosion.

[REDACTED]

Sufi service efforts illustrate Islam's capacity to serve as a stabilizing safety valve for discontent. Instead of militancy, the government recognizes that the return to Islam can foster contentment of the individual instead of militancy and is acting to take advantage of this:

- Islamic practices are encouraged within the military. For a peacetime Army's morale problems, Islam provides soldiers with a clear sense of communal purpose.
- Islamic social services are also welcomed. Enhanced choice and better quality of life are results. Rather than propaganda mills, the vast majority of Islamic service centers are cooperative and mundane outfits that channel idealistic and devout energy into harmless, even positive, activity.
- Strict Islamic personal conduct also has stabilizing virtues. The relatively simple and economical Islamic dress defuses potential interclass bitterness. Wearing the veil and colorful chadors are as much practical fashion as signs of "sacred rage."

#### → The Coin's Edge: Whither Egypt?

Mubarak's two-track strategy toward the Islamic resurgence accommodates orderly Islamists and cracks down firmly against firebrands. The Muslim Brotherhood is tacitly allowed to participate in politics, partly to keep members above ground and partly in expectation of their cooperation against the militants. Mubarak probably also anticipates that public airing of the Islamists' specific agenda will expose the inadequacies and diminish the appeal of their programs. With order maintained, it is hoped time will work out a smooth reconciliation.

#### Potential Perils. A key question is whether

"moderate" Islamists are a credible buffer against militants. Interviews with reputed "moderates" raise the suspicion of "wolves in sheep's clothing."

Time may also work against Mubarak. If the Islamic resurgence is largely driven by economic and social frustration, then the delay of economic reforms in order to prevent Islamic-generated protest may, in the long run, be self-defeating.

*The Wisdom of a "Muddled" Response.* Gradual accommodation of Islamic sensitivities does not now appear to be a slippery slope toward an ultimate clash. Mubarak's "indecisive" middle course between capitulation and all-out suppression seems better labeled today as "shrewd." [REDACTED] b (3)

b3 Time and public exposure have yielded greater soul-searching among citizens about the proposed radical Islamic alternatives. Mass weariness of loud, extremist behavior is evident in increased tolerance of constricted civil liberties and in willingness to inform state security agencies of radical activity. [REDACTED]

[REDACTED] a lively public debate that reflects the complex attitudes of the political culture toward religion's role in Egypt. Emotions run strong, but unintimidated debate is reducing anxiety. [REDACTED] b (3)

While Islam is an increasingly key component in the definition of the Egyptian political culture, it is not the only component. The Pharaonic legacy, for example, still commands apathetic salutes to the ruler and his cohorts. Islamic appeals are not likely to supersede such historic stabilizing strengths as a

largely homogeneous society, pervasive bureaucracy, and omnipresent, well-equipped security forces. Stated differently, citizen attachment is more to the Egyptian nation than to the greater Islam. [REDACTED] b (3)

We believe Egyptians may very well adapt the Islamic resurgence into something recognizably "Egyptian." Egypt's dominant national instinct continues to comprehend that the quest for perfect purity is unattainable. An increased Islamic imprint on Egyptian society does not inherently make it less stable. Rather than a sword spelling doom, the Islamic revival may be a key Egyptian span over present troubled waters. [REDACTED] b (3)

[REDACTED] b (3)

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Lebanon: Hizballah at the  
Crossroads [REDACTED]

b (3)

Hizballah's growth from a band of violent zealots to a complex movement with aspirations to represent Lebanon's Shias may be diluting its extremism. At the same time, changes in the Lebanese political environment are setting the stage for a reexamination of the group's political tactics, particularly terrorism. Hizballah has not abandoned or disavowed its self-proclaimed goal of establishing an Islamic republic in Lebanon, but the implementation of such a state remains distant. Although we speculate that no substantial change will be discernible in the short term, we suspect that changes may occur in the group's relations with Syria and position on participation in the Lebanese political reform process that could mean it is reassessing its tactics. [REDACTED]

b (3)

Hizballah during the past year has experienced several disorienting developments that have accentuated the fundamentalists' need to take stock:

- The growth of its military arm as Hizballah militiamen mounted increasingly sophisticated attacks against pro-Israeli militias in South Lebanon.
- The kidnaping by its militiamen of an American military officer assigned to United Nations duty in southern Lebanon in February.
- A serious military and political setback in the south in April as Amal, the pro-Syrian rival Shia militia, forced Hizballah militiamen to lay down their arms after weeks of sharp fighting.
- A stunning turnaround in the southern suburbs of Beirut in May when Hizballah fighters sharply defeated Amal.
- A spectacular airliner hijacking—also in May—that ended without the hijackers being punished for their actions but no nearer to realizing their goals.
- The entry of Syrian peacekeeping forces in early June into Hizballah's stronghold in Beirut's southern suburbs.
- The defeat in July of an important ally, the pro-Arafat Palestinians, in the camps of West Beirut by the pro-Syrian Palestinian forces of Abu Musa.

**Hizballah's Islamic Republic: An Elusive Goal**

There is no good blueprint for constructing a Shia state. Iran, the only existing example of an Islamic republic, is a poor model for Hizballah to follow for several reasons:

- It is unlikely that the political upheaval that preceded and followed the fall of the Shah can be replicated in Lebanon. The Lebanese political system is laced with instability, but the conditions that enabled Iran's Shias to overthrow the system simply do not exist in Lebanon. Iran is almost 95 per cent Shia but Lebanon Shias comprise a much smaller percentage of the population.
- There are substantial theological differences between Hizballah clerics and Ayatollah Khomeini, the architect of Iran's Islamic state. The differences are rooted in two divergent threads of modern Shia theology: an avowedly activist school represented by Khomeini and the "Line of the Imam" and a less extremist school represented by Lebanese cleric Shaykh Muhammad Husayn Fadlallah—The guiding spirit of Hizballah—and his teachers, Iraqi Ayotallahs Hakim, Khoi and Bakr-Sadr.
- The Iranian Islamic state contains elements of Iranian nationalism that are not applicable to Lebanon. For example, the suppression of religious minorities—such as the Bahai—in Iran is not

b (1) b (3)

b (3)



repeatable in Lebanon with its diversity of powerful Islamic and Christian religious sects. Similarly, cultural traditions like the Zoroastrian festival of No Ruz, which are powerful expressions of Iranian nationalism and historical unity, are absent from Lebanon.

- Lebanon is occupied by its neighbors, Syria (65 per cent of the country) and Israel (10 per cent), who oppose an Islamic republic. [REDACTED] b3

These difficulties have not prevented Hizballah officials from making pronouncements about such a regime. Hizballah's "maximum program" probably is best represented by radical proponents of such a state like security official Hasan Nasrallah. For Nasrallah, a Lebanese Islamic republic would be a precursor of a political entity encompassing the Islamic world and embodying the aspirations of the pan-Islamic movement. In our view, however, Nasrallah does not represent the mainstream of the movement. [REDACTED] b3

#### Fadlallah's Vision of an Islamic Lebanon

We believe Shaykh Fadlallah is the keeper of Hizballah's ideological vision, and that his views on Islamic government and the establishment of an Islamic state in Lebanon hold sway within Hizballah. Based on his contradiction of the radicals in numerous public statements and scholarly works, we conclude that Fadlallah recognizes that Lebanese power politics, militia-style, means the establishment of an Islamic republic requires far more than its mere proclamation. [REDACTED] b3

- b (1) b3 [REDACTED] we conclude that he recognizes the necessity of finding a way to maintain Lebanon's religious diversity within an Islamic context. Although Fadlallah apparently considers Lebanon an artificial creation of European imperialism, he has not advocated its abolition as a political entity. He has called for an end to the "sectarian system," stressing the need for majority rule—which undoubtedly would give Shias substantial political power. But besides urging the implementation of Islamic law, and the need to convince Lebanon's Christians that an Islamic state would not be hostile to their religion as opposed to their militias, he has said little about the detailed workings of such a state. [REDACTED] b3

The differences between an Islamic state as conceived by Fadlallah and Khomeini's Iran, nevertheless, strongly suggest that Fadlallah's political philosophy is less extreme and still heavily influenced by his Iraqi mentors. Unlike Khomeini, Fadlallah's writings indicate that he does not think that Shia clerics should hold the final say over political authority. Even though he clearly favors a state based on Islamic jurisprudence, he does not appear to favor the notion that Khomeini, as the alleged representative of the vanished 12th Imam, should have a higher authority than other political actors. [REDACTED] b3

We speculate that Fadlallah's long-term program for establishing an Islamic republic entails a four-part strategy. The views he expressed in his book, *Islam and the Concept of Power*, indicate he sees the first step toward an Islamic republic as the creation of an Islamic political consciousness among the country's Shia masses. The second stage is the formation of a Shia political-military organization—represented by Hizballah—and the use of this organization to combat un-Islamic influences in Lebanon. The third stage is to position this organization as the primary, if not the sole, representative of Lebanon's Shias. Finally, we speculate that Fadlallah would exploit the demographic weight of Lebanon's Shia community to take over the existing political system and then modify it or to disband the existing system and replace it with an Islamic republic. [REDACTED] b3

#### Living With Syria

We believe Fadlallah sees Hizballah's relationship with Syria as increasingly central to the movement's continued growth. In the past, Hizballah has relied on Iran's strategic ties to Damascus as a major element in managing its own relationship with the Syrians. We speculate that Hizballah will begin to rely less on Iran as an intermediary following the cease-fire in the Gulf war and have more frequent and higher level contacts with Syrian officials. In our view, a better relationship with Damascus could benefit Hizballah by reducing the likelihood of a confrontation with Damascus and by offering potential political leverage against Amal. The willingness of Fadlallah to endorse a limited Syrian presence in Hizballah's Beirut stronghold and

*Shaykh Muhammad Husayn Fadlallah*



"Some people talk about making Lebanon an Islamic republic. We said that Islam carries within it the idea of government, as does any nonreligious ideology. . . . For this thinking to be transformed into a political reality or a way of life or a position of power requires more than just slogans. Even local political steps are not sufficient. Rather, it takes many factors, among which is to have the majority further this idea, not merely adhere to it—a majority that is in complete sympathy with it . . ."

"I think that the idea of an Islamic republic, like the idea of Marxism, does not enjoy an overwhelming majority in its favor within the Lebanese arena. Not even the majority of Muslims supports an Islamic republic. Lebanon's internal situation, the existence of different communities, the complexity of the Lebanese problem as well as the regional and international situation, where decisions concerning Lebanon are made, all neither allow nor aid in the transformation of the idea of an Islamic republic into a reality."

*Shaykh Muhammad Husayn Fadlallah*

his meeting with Syrian President Assad in Damascus last month suggests that Fadlallah's fundamentalist ideology is no hindrance to living with the realities of power in Lebanon.

The Syrian public account of Assad's meeting with Fadlallah implicitly recognized Hizballah's growing stature in Lebanese politics. Syrian concern over the potentially turbulent political environment before Lebanon's coming presidential election may have prompted Assad to raise the issue of Hizballah's political role in Lebanon. Given his past behavior, Fadlallah probably would decline a larger political role for himself, if it were offered, but would implicitly accept a deal with Syria. Fadlallah's emphasis on his religious role is intended to hide his

decisionmaking role in Hizballah.

**Hizballah's Crossroad**

Fadlallah's meeting with Assad highlights a dilemma the fundamentalists must confront as they try to implement their vision of a new Lebanon: should they work within the existing political system? To do so, the status quo risks undercutting the group's Islamic credentials and makes it possible for others to blame

Hizballah for the shortcomings of the political system. Not participating makes it harder for Hizballah to acquire the political stature and legitimacy it desires.

**B3**  
We believe that Hizballah, although reluctant to participate in the Lebanese political system, is unwilling to forgo future participation. To participate, however, it almost certainly must distance itself from its terrorist past. Although Hizballah has a substantial base of support, its involvement in terrorism is a major obstacle to broadening its influence, particularly among Lebanon's stoic southern Shias, many of whom are doggedly loyal to Amal. **B3**

Hizballah is in transition between creating a military-political bureaucracy and positioning itself as the representative of Lebanon's Shias, in our view. The intra-Shia fighting this spring in southern Lebanon—where Amal badly bloodied Hizballah—and in West Beirut—where Hizballah out over Amal—demonstrated that the fundamentalists, although they have created an impressive militia, have not yet supplanted Amal. The mixed results also suggest that Hizballah's progress, although significant, may have as much to do with Amal's political shortcomings as with Hizballah's appeal. In any case, Hizballah is not close to supplanting the more moderate Amal on the national political scene. **B3**

#### Following a Christian Example?

We suspect that if Hizballah decides to seek a role representing Lebanon's Shias in the political process, the movement may well parallel the course the Christian Lebanese Forces militia has taken. That group has removed much of the stigma of its alleged involvement in terrorism and its ties to Israel by alliances with some Arab states and circumspect behavior. Fadlallah's meetings with Assad could be harbingers of change in Hizballah's sometimes adversarial relationship with Syria, the most important Arab player in Lebanon. Fadlallah's public statement that hostages in Lebanon should not be punished for the shootdown of Iran Air Flight 655 by the US Navy may also help alter perceptions

of Hizballah as a purely terrorist organization. Likewise, his continuing calls for the release of hostages on humanitarian grounds may help distance him from some of Hizballah's less savory activities.

#### Outlook

**B3**  
In our view, Hizballah is nearing decisions on how to proceed to establish an Islamic republic and the extent to which the Shia fundamentalists should engage in the current political system. A key indicator of Hizballah's pragmatism will be the group's willingness to participate in a political reform process in Lebanon after the presidential election. Although Fadlallah has claimed that the system itself is the cause of Lebanon's problems, we suspect he will regard talks aimed at restructuring the system as worthy of his participation, particularly if he can position Hizballah as the representative of Lebanon's Shias. We believe that he will conclude that it would be unwise for Hizballah to allow Amal to portray itself as the only spokesman for Lebanon's Shias.

**B3**  
Such a move by Hizballah would also please Syria. Syrian-Hizballah frictions are certain to continue but can be kept within bounds if managed well by Assad and Fadlallah. **B3**

We would not expect Hizballah to abandon the venerable Lebanese political practice of holding hostages. Nevertheless, if Hizballah proceeds along its present course, we suspect the political liability of holding Western hostages will gradually come to be seen as outweighing the benefits obtained. **B3**

Neither would we expect Hizballah to completely or rapidly abandon its use of terrorism. We believe airline hijackings are possible as long as key Hizballah officials seek to free relatives held captive in Kuwait. We believe, however, that the group's reliance on terrorism will decline if it makes progress toward becoming a legitimate political actor. **B3**

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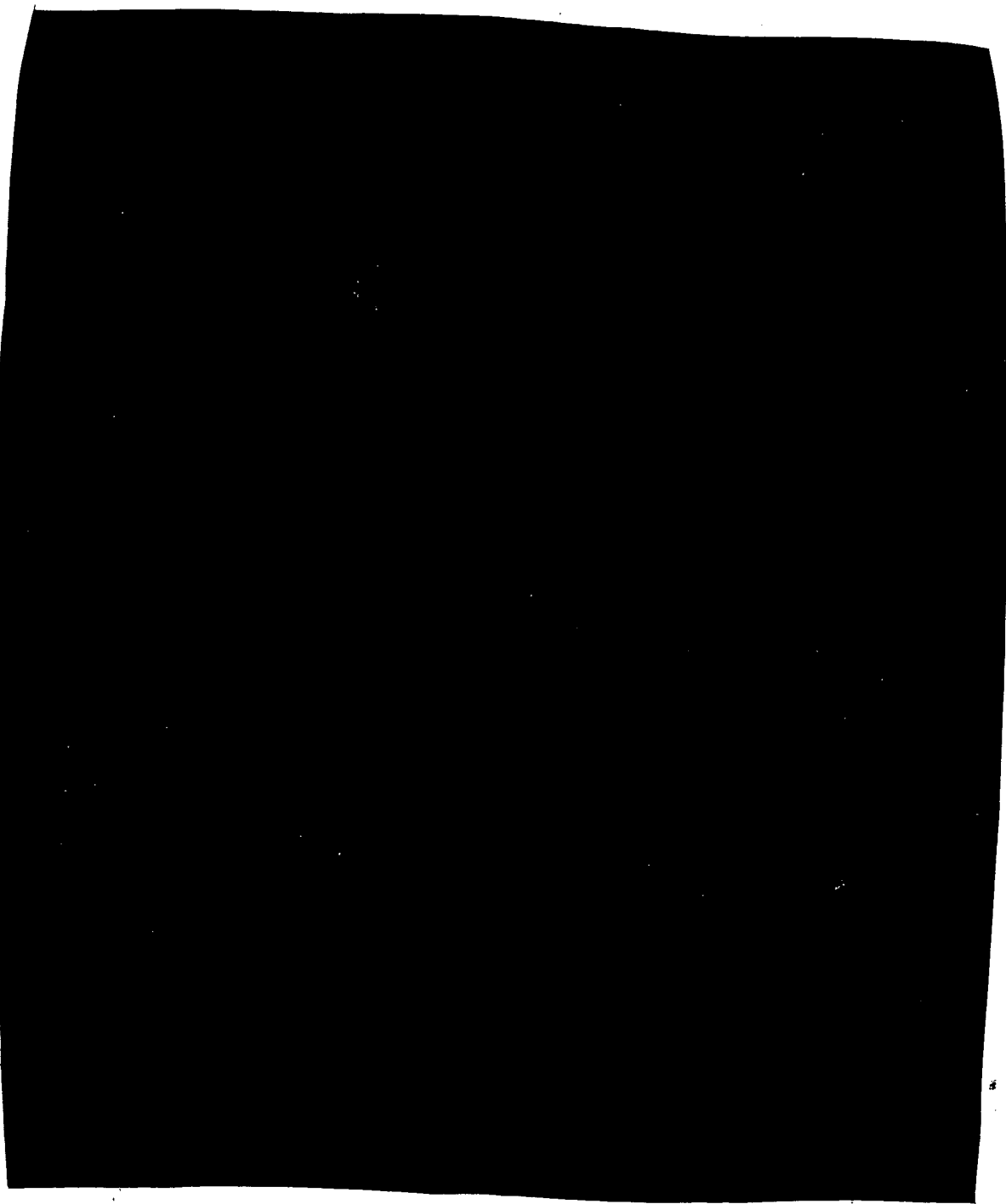
If Hizballah's involvement in the Lebanese political system grows, it could precipitate splits in the movement. Radicals such as Nasrallah or hostage-captor Mughniyah might quit the organization. In our view, Hizballah so far has been surprisingly free of political factionalism, but a move toward greater participation in the political system could deepen divisions that have lain dormant. There are important clan and regional loyalties among Hizballah members that at some point could develop into important policy disagreements. [REDACTED] b (3)

We suspect that under the surface of agreement on policy issues, there are differing views on the use of terrorism and on the importance of ties with Iran and Syria that could split the group. Hizballah terrorists could break away from the movement—we suspect that some may already have done so. Western and Arab observers of Lebanese affairs have speculated about competing pro-Syrian and pro-Iranian tendencies in the organization. If Iran substantially reduces its support for Hizballah, there could be more serious internal differences over how the group should weight its relations with distant, although sympathetic, Iran versus close and powerful Syria.

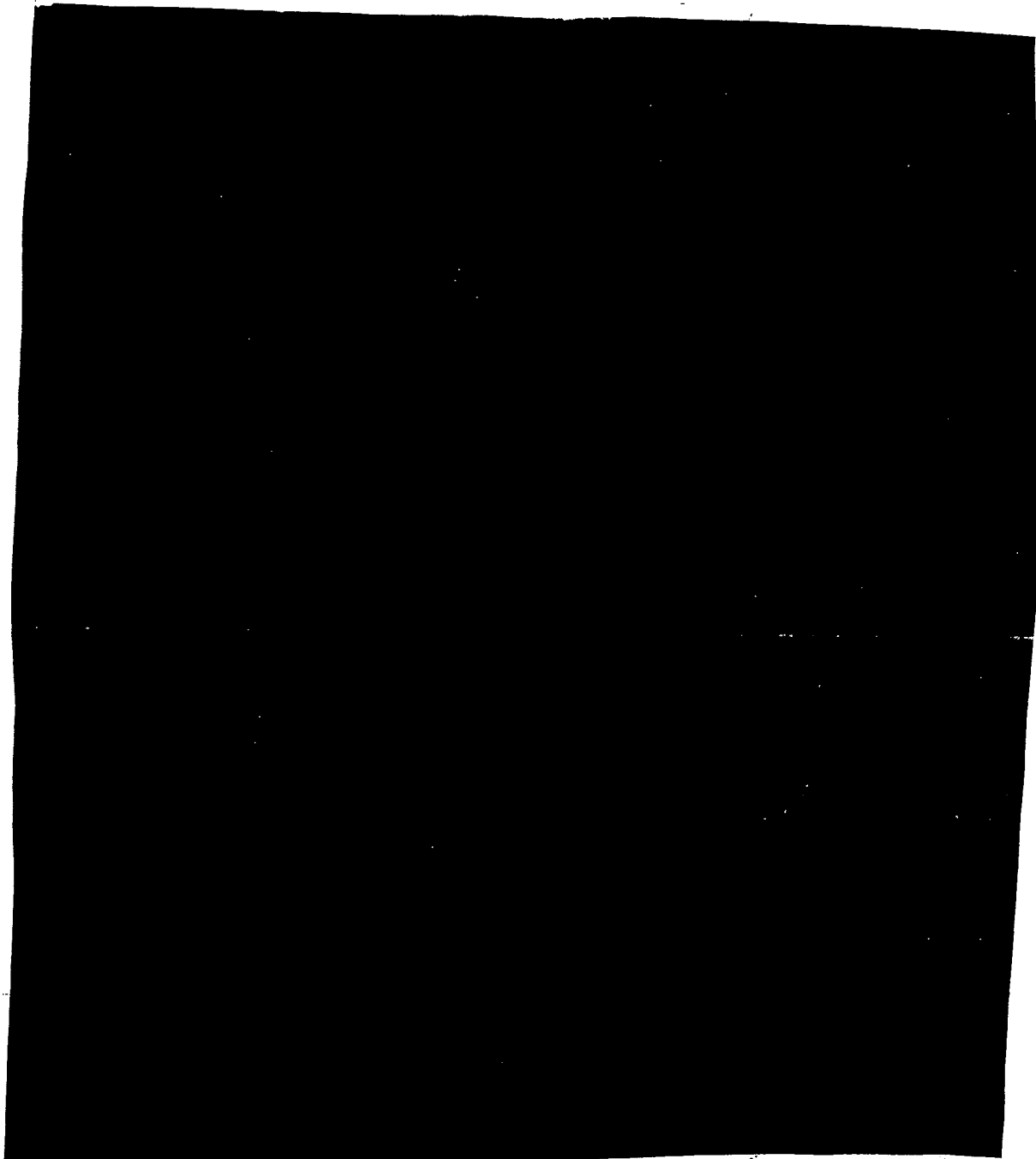
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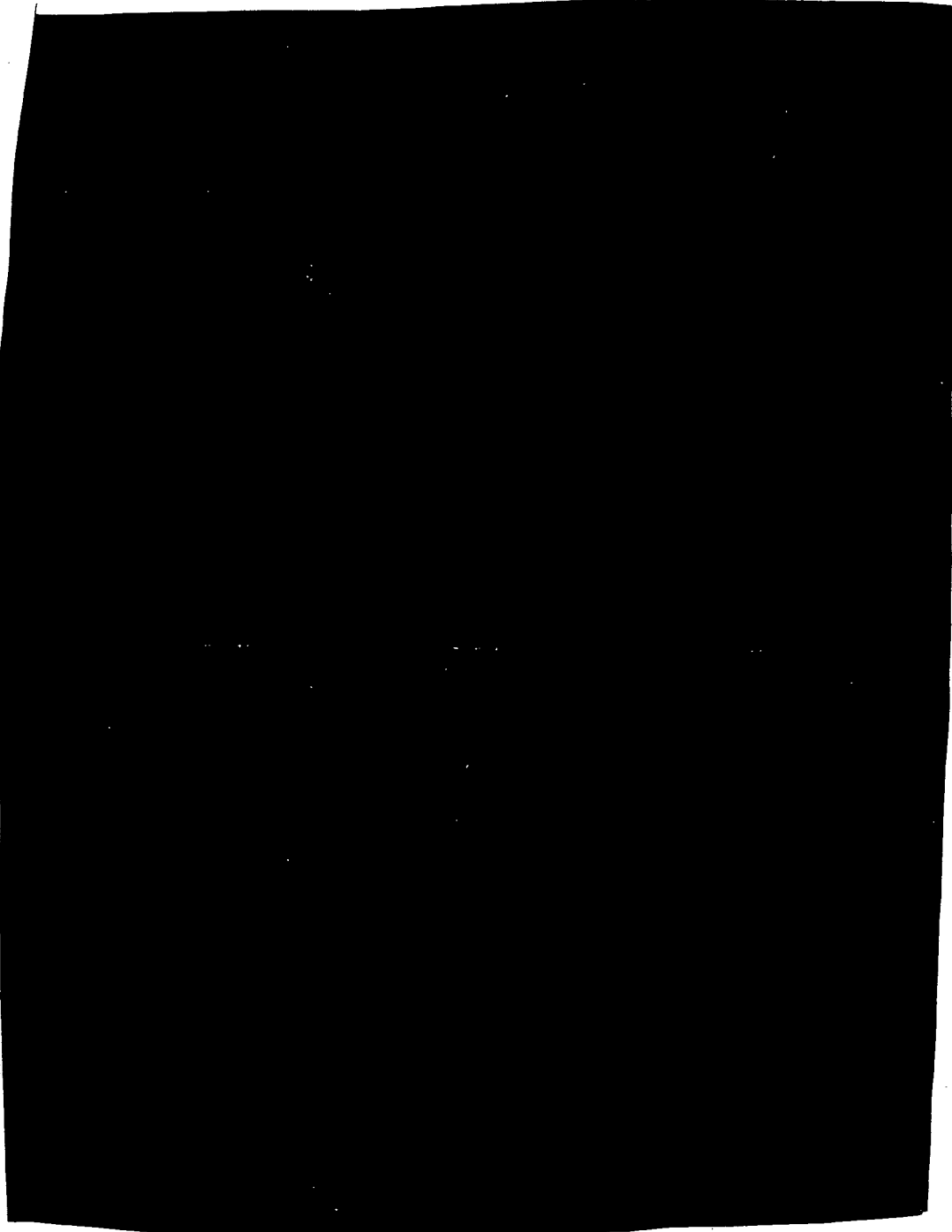
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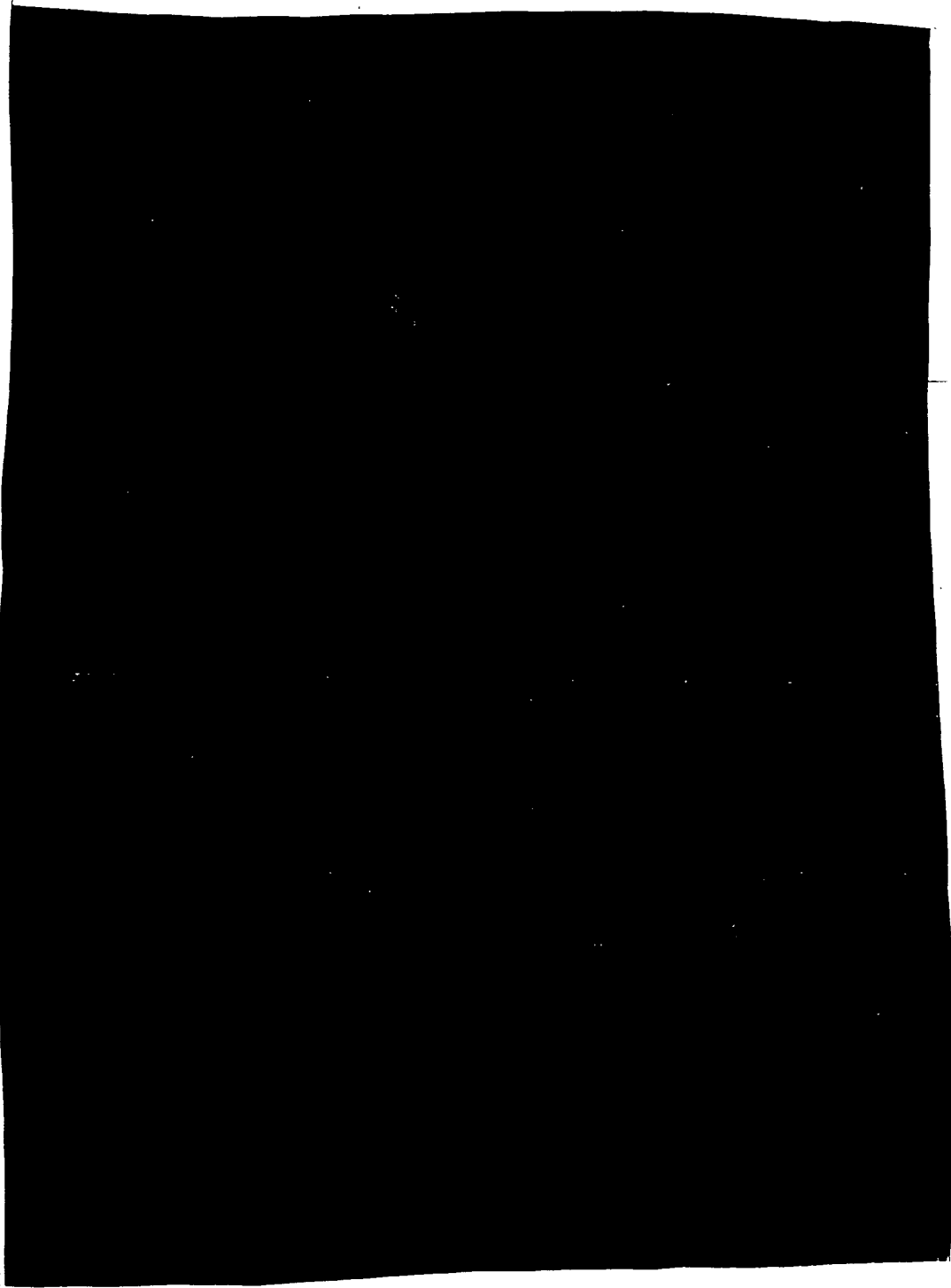
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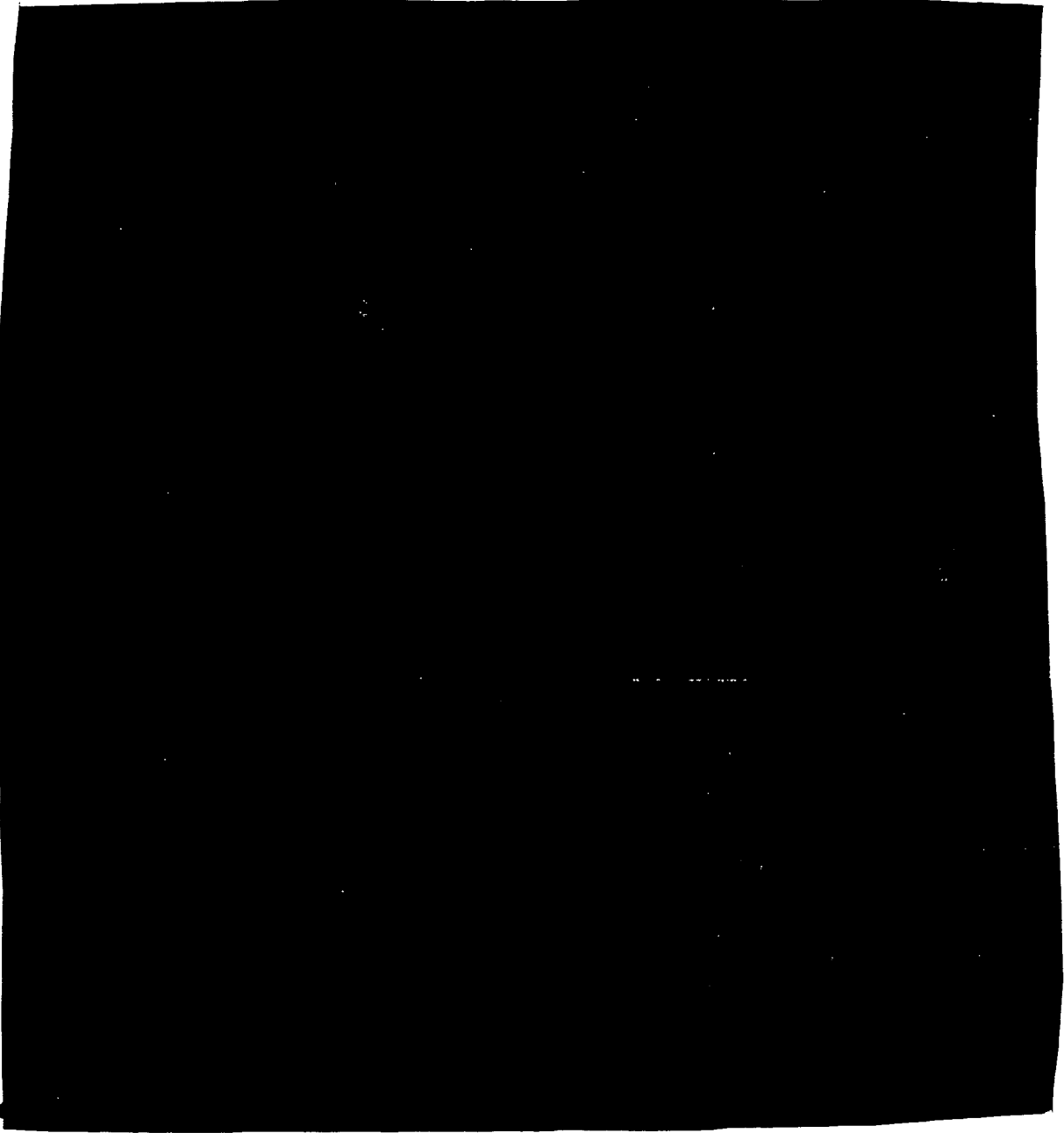


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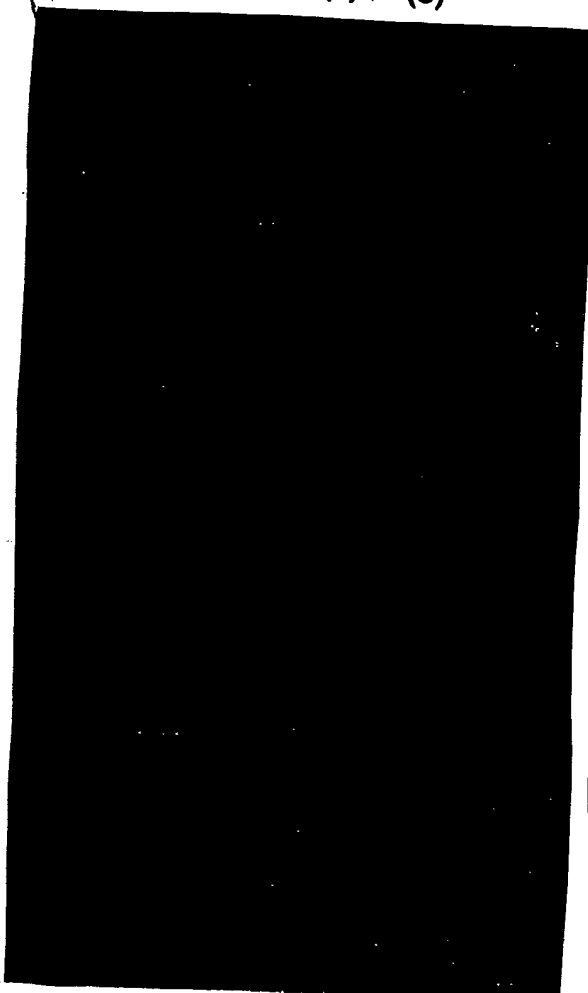
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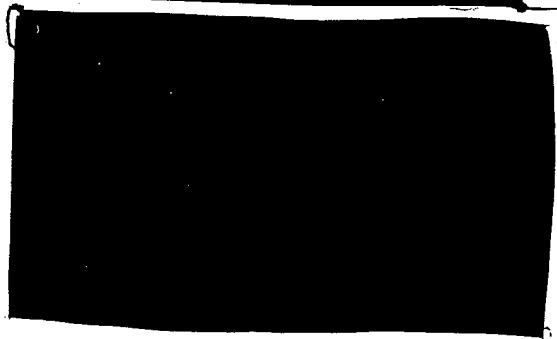


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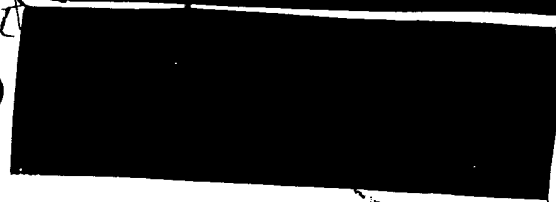



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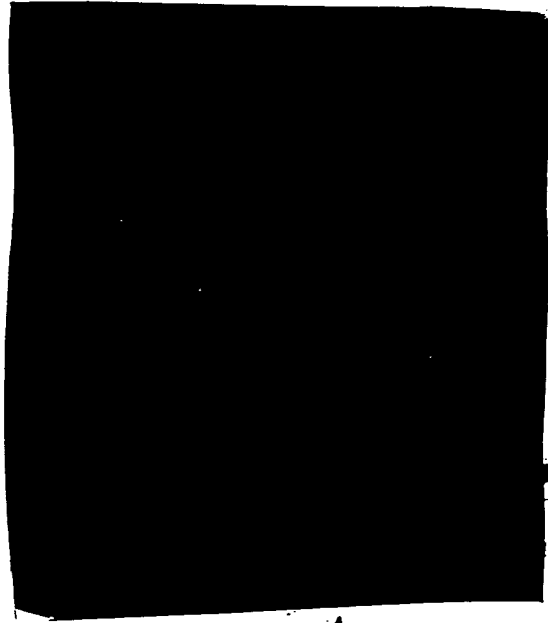
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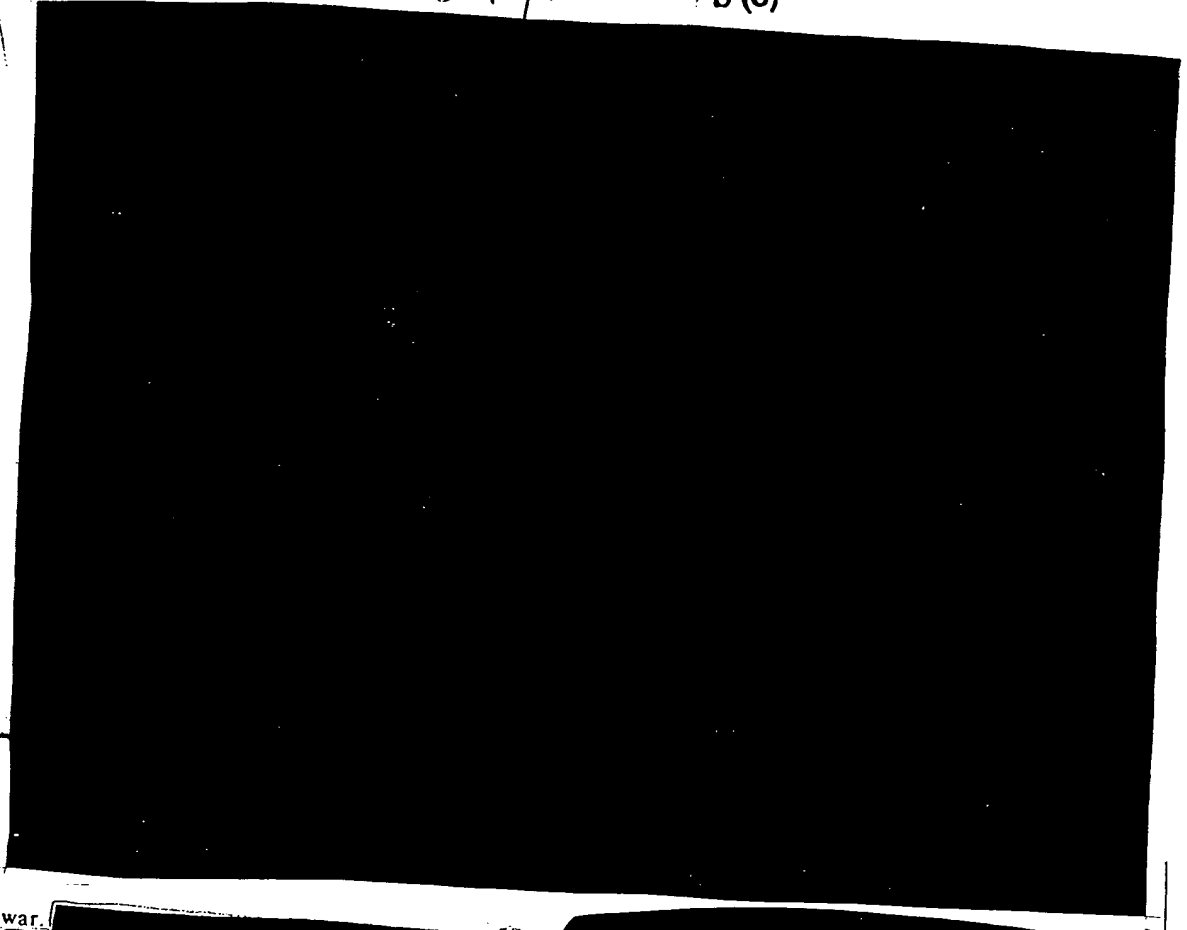
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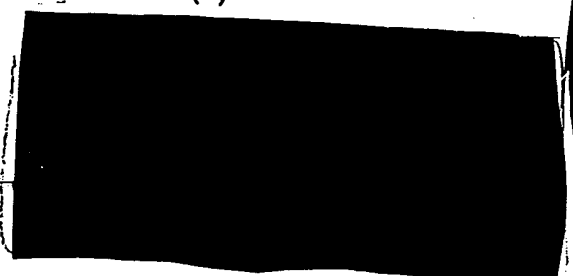
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### Afghanistan: Limits of Kabul's Influence

We believe the Kabul regime's political, economic, and propaganda programs in Qandahar—Afghanistan's second largest city before the war—have been designed to expand the regime's base and undermine resistance support in the region. Despite its efforts, however, the city has remained a center of opposition. Kabul's hold on the region has grown increasingly tenuous since Soviet forces withdrew from the city in early August. [REDACTED] b (3)

Qandahar, the capital of Qandahar Province, is likely to be the first major city to fall to the resistance once the Soviet withdrawal is complete. The problems Kabul has faced in its political and economic programs in Qandahar are symptomatic of its problems throughout Afghanistan. The failure of these programs, along with the intense factionalism within the ruling People's Democratic Party of Afghanistan, has convinced us that the Communist regime almost certainly will fall within six to 12 months after the completion of the Soviet withdrawal. b (3)

#### "Gateway to the South"

Before the Soviet invasion, Qandahar city had some 200,000 inhabitants—the current population stands at 30,000 according to press reports—and was southern Afghanistan's main center of commerce and agriculture, providing 75 percent of the country's dried fruit and serving as a transit point for much of its foreign trade. Qandahar Province was the home of several Pashtun tribes, including the Durrani, the ruling tribe until the 1978 Communist coup, and the rival Ghilzai tribe to which many founders of the People's Democratic Party of Afghanistan belonged. b (3)

Since the Soviet invasion in 1979, the Qandahar region has been the site of almost continuous fighting. Recent estimates in the regime press indicate that 70 percent of the housing in Qandahar city has been destroyed. Qandaharis contend the destruction is closer to 85 percent. [REDACTED] b (3)

b (3)

[REDACTED] Nearly all the roads in Qandahar have been damaged. Moreover, many villages throughout the province have been razed and half the schools destroyed. USAID estimates that roughly 1 million Afghans have fled Qandahar Province during the war. [REDACTED] b (3)

#### In Search of Friends and Influence

Kabul's chief goal in Qandahar is to reduce popular support for the resistance. To do this, the regime has employed various tactics, including wooing local leaders with gifts and influence, exploiting tribal ties between leaders of the ruling party and the locals, and using military force. [REDACTED] b (1) b (3)

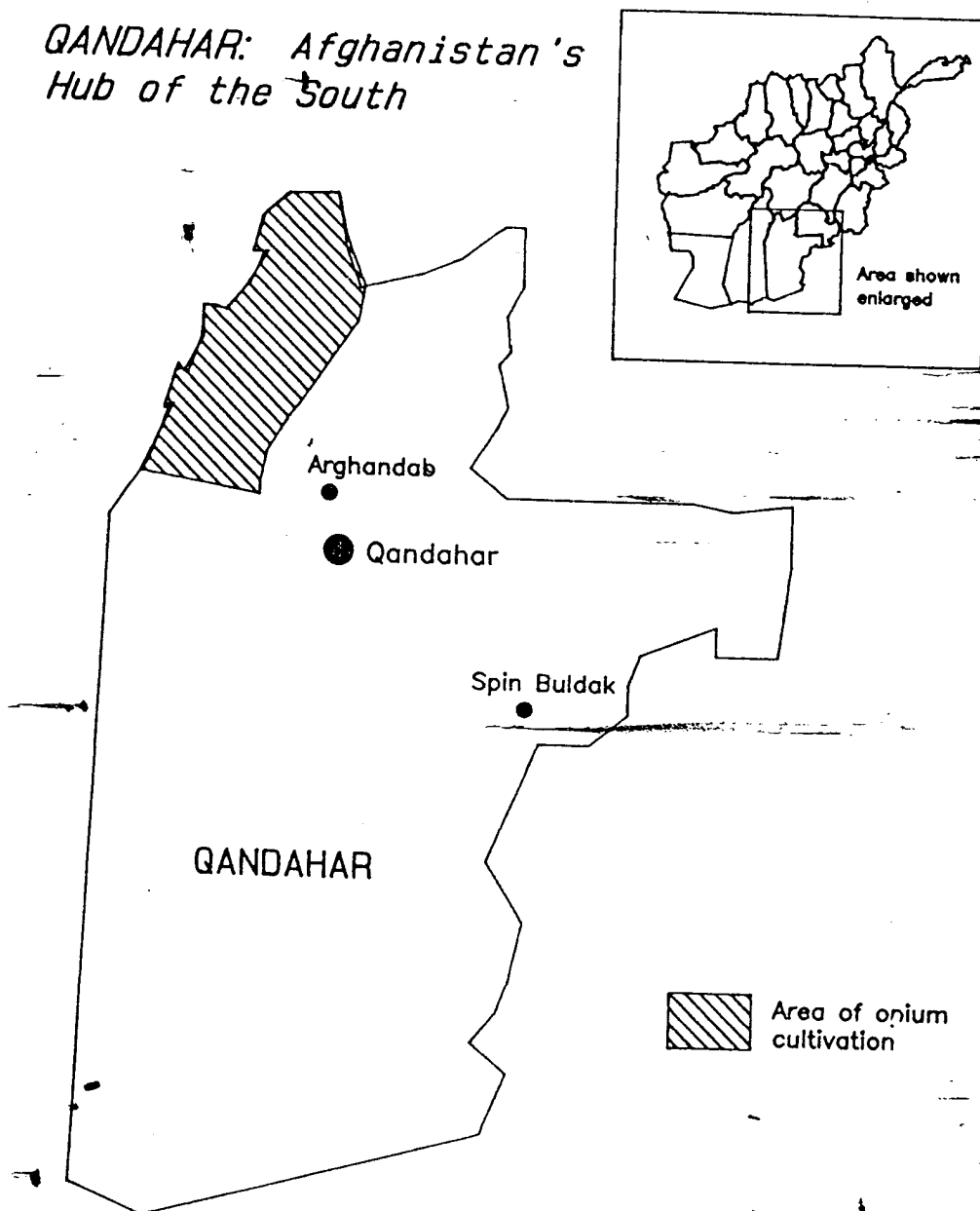
#### Economic Incentives

In hopes of increasing popular support for the regime, Kabul publicly claims to have channeled several [REDACTED] b (3)



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*QANDAHAR: Afghanistan's  
Hub of the South*



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million dollars into Qandahar Province for the reconstruction of roads, schools, hospitals, and houses.

b (1) b (3)

[REDACTED]

[REDACTED] 52 development projects estimated to total \$3.5 million, were carried out in Qandahar Province in 1987, and the regime plans to maintain this level in 1988. [REDACTED] 43 bridges have been built this year and the 18-kilometer road from Qandahar city to the airport paved. Moreover, a concrete factory and several generators [REDACTED] were set up and began production earlier this year. [REDACTED]

b (1) b (3)

b (3)

[REDACTED] Soviet specialists have assisted in building an asphalt plant, electrifying one of the city's districts, and repairing roads. Several stores and stands are said to be selling goods from the Soviet Union. [REDACTED]

In line with its national reconciliation policy, the regime has established a commission in Qandahar through which it claims to have provided assistance to some 60 villages in the region. In 1987, more than 400 tons of fertilizer were provided to Qandaharis for spring planting. [REDACTED]

b (1) b (3)

[REDACTED]

b (3)

As in other provinces, the Soviets are trying to expand their influence in Qandahar through direct economic ties. [REDACTED] a delegation of Qandahar traders concluded an agreement worth \$12 million with the USSR's Kazakh Republic for the import of foodstuffs, cement, and bicycles to the province. The Qandaharis will supply the Soviet Union with raisins, tea, cloth, and other fruit. Moreover, plans were completed recently for a water supply project for the Spin Buldak district, estimated to cost \$16 thousand. Reconstruction of a telephone exchange with 3,000 lines is scheduled to be completed by the end of the year. [REDACTED]

b (3)

The regime, in an attempt to gain cooperation from or at least neutralize the tribes in Qandahar Province has done nothing to counter the booming narcotic trade there. In fact, reports [REDACTED] indicate that Kabul, with Soviet financial support, has encouraged opium production by selling seed, making cash payments in advance of the harvest, and acting as a buyer and transporter for the crop, but these reports have not been confirmed. Although Qandahar is not a major drug producer, it is an important transit point for narcotics destined for Pakistan and Iran. [REDACTED] b (3)

b (3)

#### Response to the Regime's Efforts

[REDACTED]

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Nevertheless, we believe most Qandaharis strongly support the resistance and have not bowed to regime propaganda. The gains Kabul has made by winning over much of the Achackzai tribe, for example, have been neutralized both by the greater hostility toward the regime on the part of local Nurzai tribesmen—traditional enemies of the Achackzai—and by Kabul's inability to control its new Achackzai allies. [REDACTED]

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Other attempts to manipulate tribal politics similarly backfired. Kabul's introduction of brutal Jowzjani commandos to Qandahar in mid-1987, for example, appears to have increased local opposition to the regime after the commandos committed many atrocities against civilians. [REDACTED]

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b(1) b(3)  
[REDACTED] Qandahar shopkeepers have worsened the regime's tight food situation by refusing to sell food items to government troops who do not have families living in the area. [REDACTED] b(3)

#### Self-Defeating Strategies

We believe Kabul judges its political overtures of secondary importance to military operations in combating the resistance. [REDACTED]

b(1) b(3)  
[REDACTED] some sections of the provincial capital were bulldozed to improve internal security at the same time that regime officials were trying to buy Qandahari support. In mid-June, the Soviets, before their pullout, destroyed fruit trees that had lined the road west of Qandahar to deny this cover to the insurgents. [REDACTED]

b(3)  
[REDACTED] In our judgment, roads that the government has built or paved around Qandahar have been to bolster the city's defense perimeter rather than to gain support from the local population. [REDACTED]

We believe the destruction by Soviet and regime forces of much of the region's infrastructure and massive bombings of local settlements have alienated most Qandaharis to the point where relations cannot be repaired by bribes or promises. Kabul's lack of military control also limits its appeal even to those Qandaharis who might be susceptible to regime overtures, in our view. Continued targeting of regime supporters in Qandahar by resistance forces has convinced us that the regime has little ability to

protect its adherents in the provinces. In our view, most local leaders who might be susceptible to regime blandishments are restrained by fears of resistance retaliation. [REDACTED] b(3)

#### Prospects

We believe continued fighting and mining of roads and fields have prevented any significant reconstruction work in the Qandahar area. Sending party reconstruction teams to the province is probably a symbolic gesture—the teams are more likely to function as a defense force. Moreover, falling government revenues coupled with increased expenditures on the military probably will limit Kabul's development efforts. [REDACTED] b(3)

In our judgment, none of the political or economic programs the regime has tried in the region have had more than minimal success. No program has helped Kabul gain the support of more than a handful of the local population. Even those projects—such as offers of local development programs and bribes to local leaders—that have traditionally been effective in Afghanistan were undermined by Kabul's inability to maintain control of the area without constant military operations. In our view, this failure will lead, soon after the completion of the Soviet withdrawal, to the fall of Qandahar to the resistance. We further believe that the failure of similar regime programs elsewhere in Afghanistan has so isolated the regime that it cannot long survive the Soviet pullout. [REDACTED] b(3)

[REDACTED] b(3)

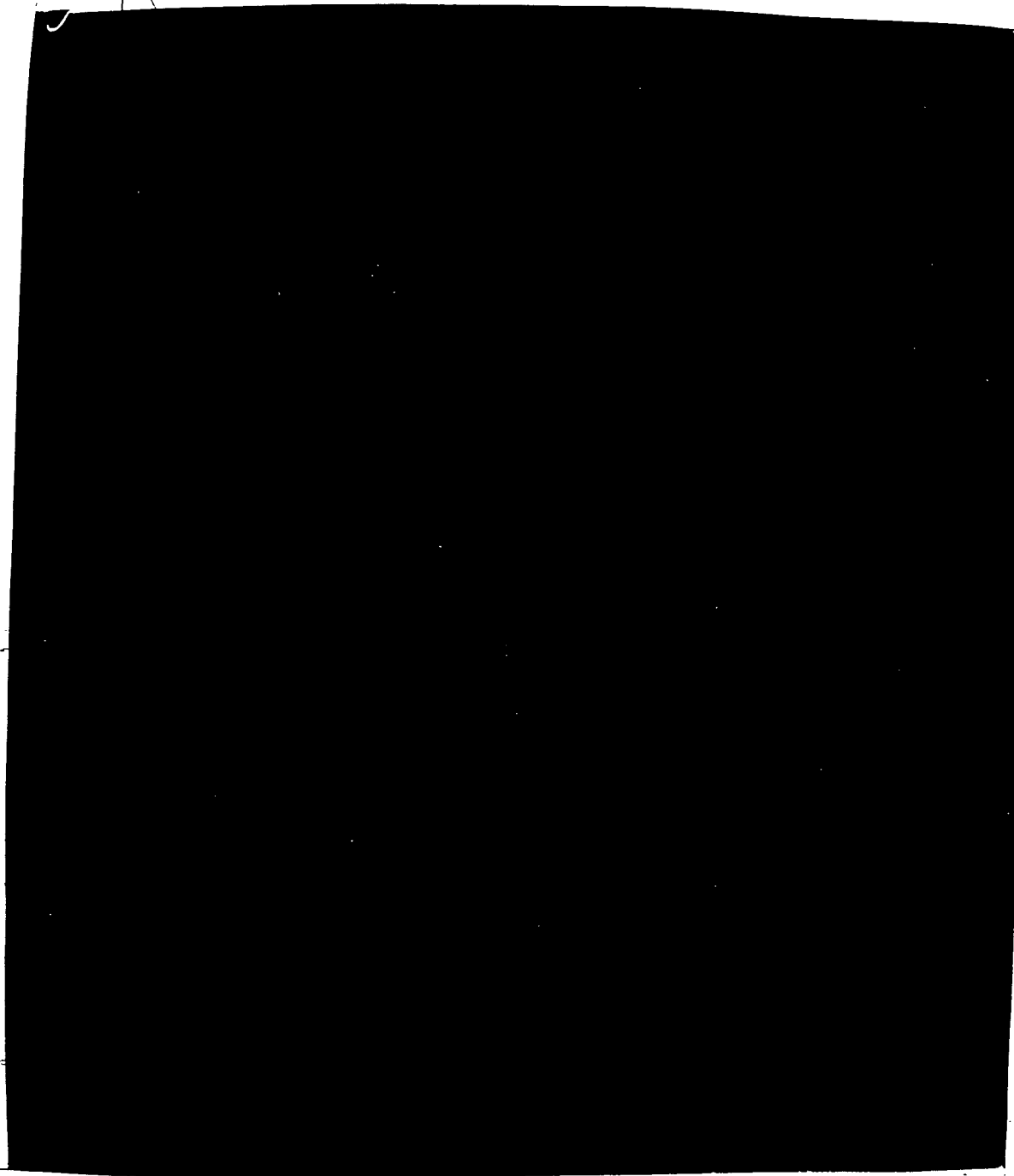
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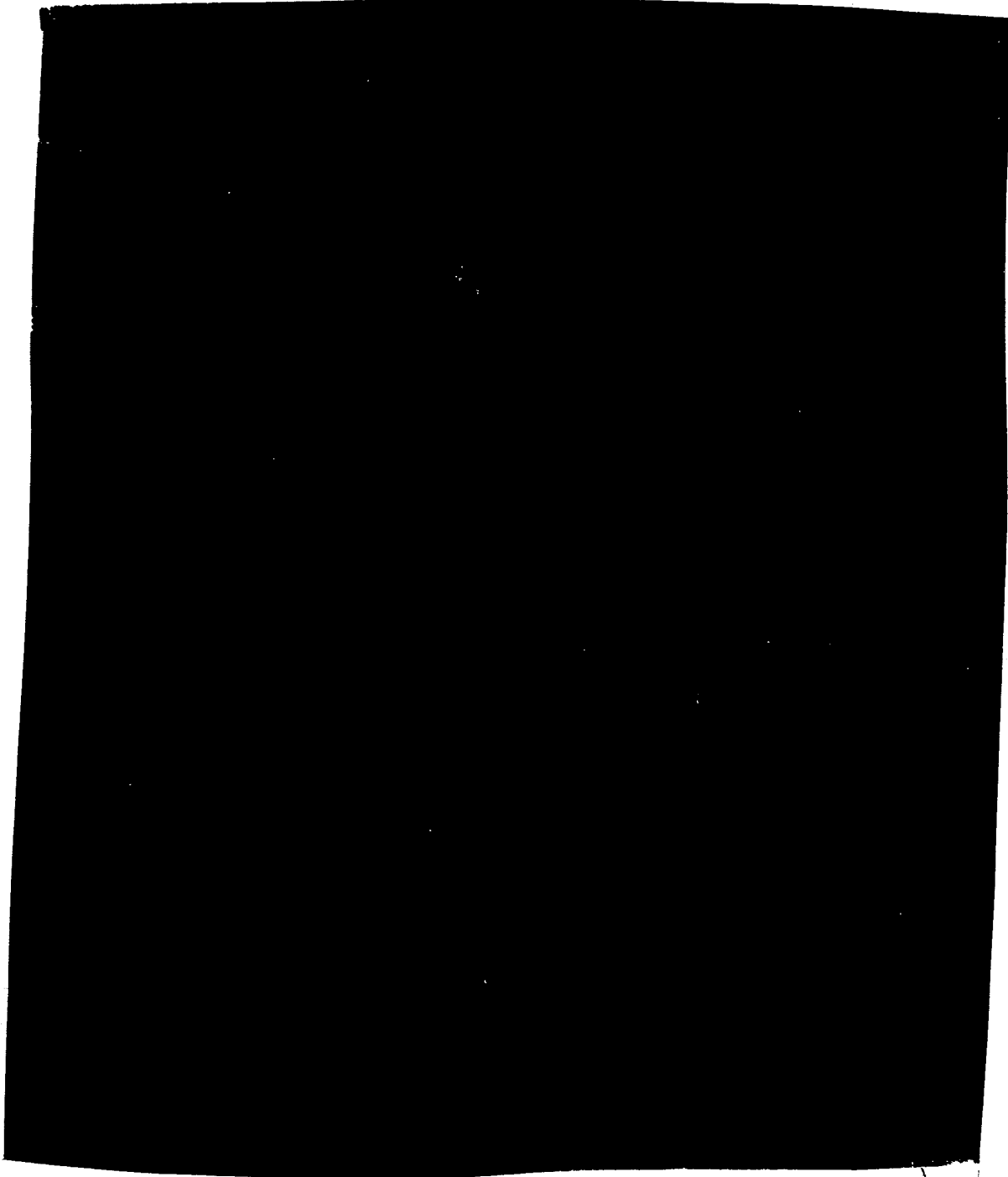
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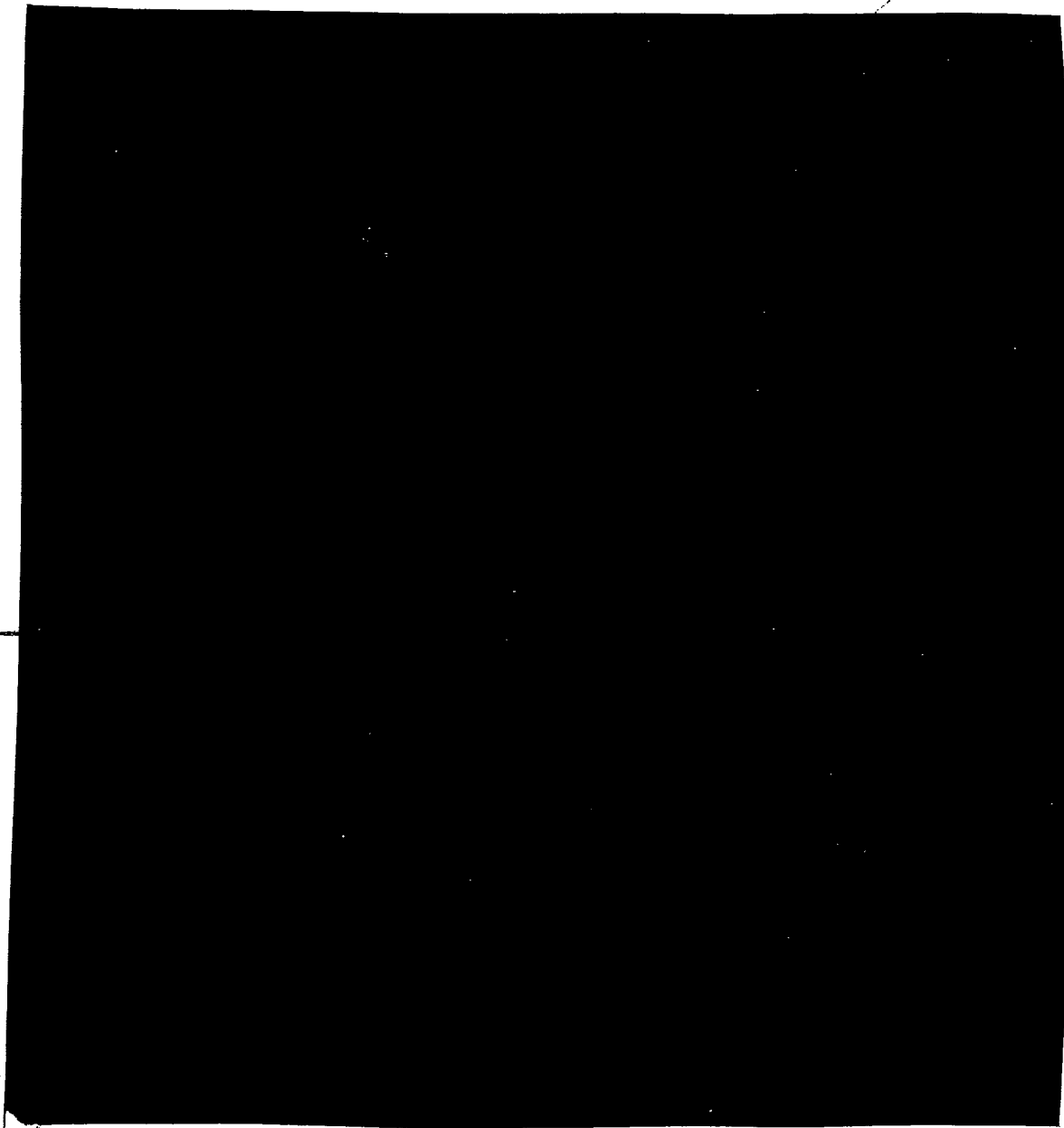
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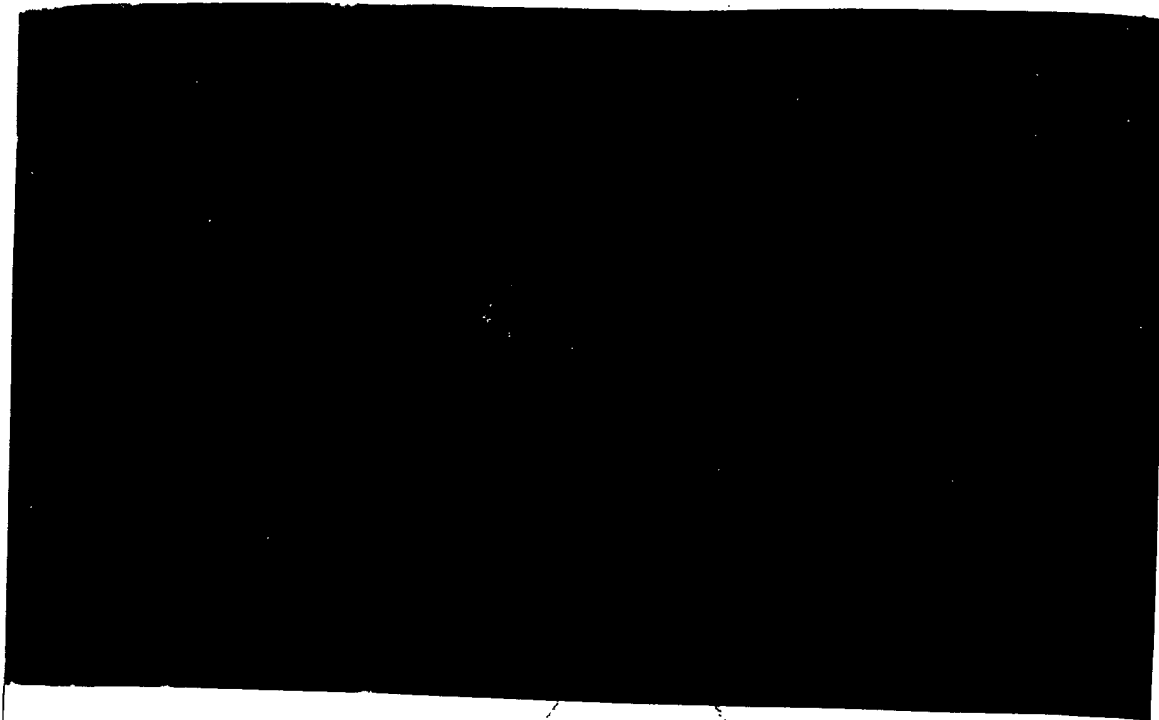
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Sri Lanka: Muslim Role in  
Ethnic Politics (b) (3)

Sri Lanka's Muslim minority is taking on a more important role in the island's complex ethnic politics as the government continues efforts to implement the Indo-Sri Lankan peace accord and prepares for national elections. The Muslims generally oppose the accord's provision for the merger of the Tamil-dominated Northern Province with the Eastern Province where the Muslims have significant demographic weight, but have mixed views on how to press their position. They are becoming increasingly discouraged by Sri Lankan President Jayewardene's inability to resolve the communal conflict between the Hindu Tamils and the Buddhist Sinhalese majority, and many are moving closer to the major opposition party. Widespread disenchantment among Sri Lankan Muslims will likely encourage radicalism among Muslim youth who are increasingly coming under the influence of Islamic states such as Iran and Libya. (b) (3)

Caught Up in the Ethnic Conflict

Until recently, the Muslims have been generally quiescent, but they increasingly have found themselves caught up in the Tamil-Sinhalese conflict. The year-old peace accord between India and Sri Lanka is intensifying Muslim fears of losing out to the other two ethnic groups because of the provision for the merger, subject to a referendum a year later, of the Eastern and Northern Provinces. The Muslims are concerned about the potential loss of political power that a joining of the two provinces would represent for their community. Muslims in the east would comprise only 17 percent of the population in a unified province, as compared with their 34 percent in the present Eastern Province, and would lose their relative strength in the elected council that would govern the combined province. (b) (3)

Concern over the loss of influence the merger would bring is making the Muslims a more cohesive community. (b) (1) (b) (3)

differences that have existed between Muslims living in the west and those in the east have begun to narrow because of mutual opposition to the merger. Increased violence against Muslims also is drawing them closer together. Muslims in the east have been frequent targets of attacks from Tamil Tiger insurgents, who the Muslims believe are trying to force them to leave the province. Eastern Muslims also resent the presence of the Indian military and accuse them of showing partiality to the Tamils and mistreating Muslim women. To prevent further Muslim hostility toward the Indians, Sri Lankan forces have had to escort Indian troops through some Muslim areas, according to the press. An increasing number of clashes also have occurred between Muslim and Sinhalese groups in Colombo, brought on by what the Muslims perceive as growing Sinhalese chauvinism. Muslims in Colombo believe the Sinhalese "bashed the Tamils in 1983 and the Muslims could be next." (b) (3)

Divided Over Strategy

Although Muslims generally oppose the provincial merger, we believe they remain divided on how strongly to press their views on Colombo. Muslims in the east have spearheaded a separatist movement and gradually are winning limited support from their western cousins. As early as 1986, Muslim leaders petitioned the government to carve out a Muslim province in the east that would remain separate from any merger of the north and east, according to the US Embassy. Last year the five Muslim members of Parliament affiliated with the ruling United National Party (UNP) voted in favor of the peace accord, despite its merger provision. (b) (1) (b) (3)



### Profile of the Muslim Community

Muslims represent a significant political and economic force as Sri Lanka's third largest ethnic group, although they comprise only 8 percent of the population. They migrated to the island over several centuries from India, the Persian Gulf, and Southeast Asia. Most Sri Lankan Muslims are Sunnis. All speak Tamil, but in recent years they have moved to distinguish themselves as a distinct ethnic group by building more mosques, adopting Islamic dress, and including Arabic on signs in many of their shops.

b (3)

The Muslims are geographically divided with two-thirds living along the western coast and one-third living in the east. Western Muslims, concentrated in Colombo where they account for approximately 15 percent of the population, are somewhat better off financially than many Sri Lankans because they dominate the lucrative gem industry, construction, transportation, trade, and the service sector. Muslims in Sri Lanka's Eastern Province comprise 34 percent of the population, with the rest of the province equally divided between Tamils and Sinhalese. Eastern Muslims are not as well off as those in the west because they generally work at subsistence agriculture and coastal fishing.

b (3) Despite their comparatively good economic standing, Muslims generally are underrepresented in Sri Lanka's educational system and professional and civil service positions.

b (3)

Muslim groups also have mixed views over how to deal with the Tamils. They generally have tried to work with the Tamils to strengthen the Muslim position if the Northern and Eastern Provinces are merged. When the accord was signed last year, Muslim politicians looked to moderate Tamil leaders to formulate a strategy that would satisfy both ethnic groups. Muslim leaders agreed to support the Tamil demand for merging the provinces in exchange for Tamil assurances that Muslim rights would be preserved in a combined

province. We believe the ability of the Tamil Tiger insurgents, who reject the accord, to disrupt the return of peace in the north and east is causing many Muslims to abandon hopes that the Tamil moderates can prevail.

[REDACTED]

b (1) b (3)

Other Muslims in the east are arming themselves against the insurgents.

[REDACTED]

b (1) b (3)

The emergence of a Muslim youth group bent on confronting the Tigers increases the likelihood of more communal strife in the east.

b (3)

### Courting the Muslim Swing Vote

Jayewardene's UNP and the center-left Sri Lanka Freedom Party (SLFP) will vie for the Muslim vote as they prepare for presidential and parliamentary elections next year. Although a number of Muslim political and cultural organizations exist in Sri Lanka, in the past the country's Muslims have worked through the UNP and SLFP to achieve their aims. Some Muslims are calling for the formation of a Muslim political party, and the Muslim United Liberation Front formed earlier this year may be a fledgling effort to establish an independent party.

b (3)

Even if a separate Muslim party is eventually formalized, we believe most Muslims will continue to look to the two national parties because they more likely can deliver political benefits. Since the 1977 national elections, most Muslims have supported President Jayewardene's party because its open economic policies have served their commercial

*Muslim Militancy Increasing*

*Younger Muslims in Sri Lanka appear to be increasingly drawn to radicalism to express their Islamic minority interests. Some may have concluded from Tamil insurgent activity that violence gets the government's attention more than moderation. Others are succumbing to the influence of militant Islamic states such as Iran and Libya.*

**Prospects**

We believe Jayewardene will continue to try to appease the Muslims to maintain their support, but not at the expense of his policies to bring about an end to the Tamil conflict. Jayewardene and other UNP leaders will try to address Muslim concerns over losing political clout probably by promising them participation in the government of the new combined province and increased entry into civil service jobs.

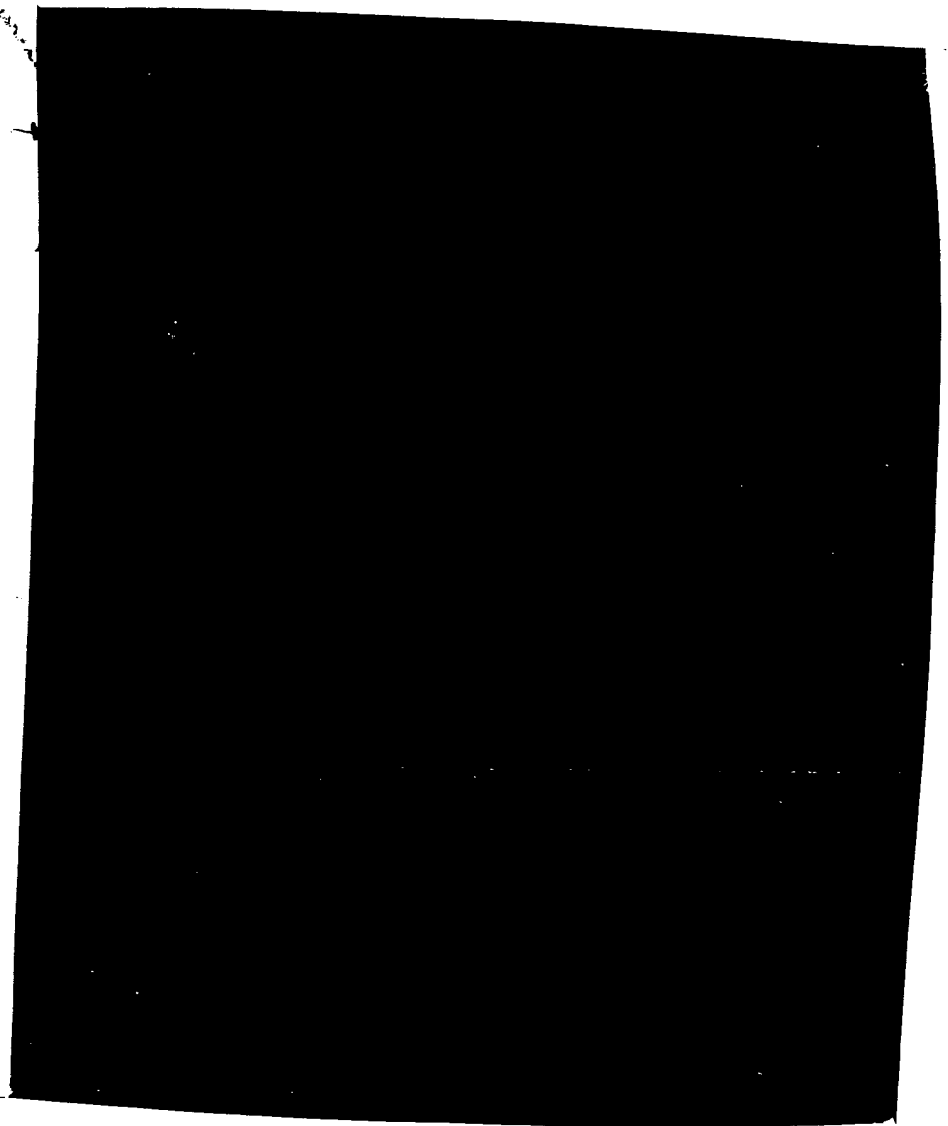
Colombo is taking steps to deal with the increased involvement of outside extremist states. It quietly expelled Tehran's charge in April and appears to be closely monitoring the activities of Sri Lanka's Muslim organizations. Colombo is reluctant to take stronger measures against Tehran, however, for economic and political reasons. Iran this year provided some emergency relief items to displaced Muslims who fled the east due to communal violence. Iran also was Sri Lanka's major oil supplier before the Persian Gulf war, and Colombo may hope to resume this economic arrangement in the future.

interests better than the more socialist policies the SLFP has advocated. Over the past two years, however, Muslims have grown increasingly disenchanted with Jayewardene's inability to resolve the communal conflict and are throwing their support to the SLFP. Although the Muslims generally have viewed the SLFP as more chauvinistic than the UNP, they appear to be willing to set aside their concern because the SLFP opposes the provincial merger plan.

If Jayewardene decides to meet Tamil demands and merge the north and east to hold provincial elections, he will rely on UNP-affiliated Muslim leaders to convince Muslim constituents the move is needed to restore peace. The President may believe he can agree to a temporary merger of the north and east because Muslim and Sinhalese voters in the east will vote against a permanent merger in the referendum to be held a year later.

We believe a failure of the government to consider the Muslims' grievances will cause them to adopt a more militant attitude and probably to become more receptive to offers of assistance from radical Islamic states such as Iran and Libya. Moreover, if Muslims in eastern Sri Lanka believe Colombo is unwilling to consider their demands, more may become willing to cooperate with Tamil insurgent groups to sustain disorder on the island. Radical Muslims may even consider assisting the Sinhalese extremist group known as the Janatha Vimukthi Peramuna which aims to overthrow the government.

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b (3)

26 August 1988

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